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REPORT
OF THE
FISCAL COMMISSION
1949-50

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Fiscal Commission—Written Evidence

Vol. III

ENGINEERING ASSOCIATION OF INDIA, CALCUTTA

The Association would make it clear that the views expressed below refer mainly to the engineering and allied industries in which the Association are mainly interested.

Before going further, the Association would like to make clear the ramifications of the Engineering Industry. No proper documentation of the definition of the Engineering Industry has so far been made either in this country or in any other country of the world because the Association find that this term is very loosely used. For instance, sometimes such terms as Engineering and Iron and Steel or Engineering and Shipbuilding or Engineering and Machine Tools or Engineering and Aircraft are used thereby indicating as if Engineering and the branches of the Engineering Industries were two separate things. The Association would, therefore, request the Fiscal Commission to describe the scope of Engineering Industries in order that in future course of action Government of India and the trade may follow a sustained policy for the development and protection of the engineering industries. The Engineering Industry should include :—

Iron and Steel Industry—

(1) Main Industry

(2) Re-rolling Industry

(3) Ancillary Industry

(4) Associated Industries

(i) Tinplate Industry

(ii) Steel Castings

(iii) Wires and Wire Nails Industry

(iv) Screw Industry

(v) Bolts, Nuts and Rivets

(vi) Expanded Metal

Non-Ferrous Metal Industry—

Aluminium Industry

Copper Industry

Lead Industry

Antimony

Tin Industry

Miscellaneous Non-Ferrous Industries

Non-Ferrous Refining Industries

Secondary Metals

Machine Tool Industry

Small Tools

Mechanical Engineering Industry

Industrial Plant and Machinery Industry

(i) Textile Machinery
(ii) Sugar Machinery
(iii) Vegetable Ghee Plants
(iv) Fine Chemical Plants and Machinery
(v) Miscellaneous : Cement, Paper-Machinery etc.

Diesel Oil Engines
Road Making Machinery
Weighing Machines and Jacks
Water Fittings
Centrifugal and Hand Pumps
Pipes and Tubes

Electrical Engineering Industries

Electric Fans
Electric Lamp Industry
Electric Motors
Electric Wires and Cables
Electric Lighting Accessories
Conduit Pipes
Black Adhesive Tapes
Distribution Transformers
Dry Batteries and Cells
Broadcasting Receivers
Secondary Batteries
Communication engineering like telephone and telegraph equipments etc.

Structural Engineering

Ship-Building Industry

Engineering Stores

Coated Abrasive Industry
Belting Industry in India
Steel Belt Lacing
Grinding Wheels Industry
Belt Fasteners
Ball Bearings

Scientific Instruments

Railway Engineering

Automobiles and Bicycles

PART I

Section A (1)

Introductory—Changes in the economic background since 1922-23.

Question 1.—Yes, the Association consider that the economic background in the country has fundamentally changed with the result that the country's fiscal policy requires a considerable change in order to fall in line with the aspirations of India's growing industries.

Question 2.—The Association are concerned with these and, therefore, they would not like to make any observations.

Question 3.—Since the Engineering Industries do not depend for their raw material on agricultural products this question does not arise directly. However, there is one important point with regard to the demand for machinery to be used on the form. In so far as the demand of agricultural India for machinery is concerned the Association hope this would necessitate the development of industries connected with agricultural plant and machinery and agricultural implements in order to satisfy that demand. Although mechanisation of agriculture has not so far gone ahead, the Association feel, from the changes brought about during the last two years in regard to reclamation of waste land, that the demand for agricultural machinery is likely to be considerable in future.

Similarly, the development of certain branches of Engineering Industries, for instance, jute mill machinery, sugar mill machinery, and cotton mill machinery depend for their developments which in turn are dependent upon agricultural crops like sugar cane, jute and cotton. Therefore, the development of these three agricultural industries is likely to stimulate the sugar, cotton and jute industry which in turn lead to a demand for industrial machinery for these industries. The development of these industries has already led to an increasing demand for these types of machinery and the development of new engineering industries in order to satisfy these demands has already taken place to a certain extent.

Question 4.—The Engineering Industries are mainly concerned with the development of mining industries in so far as the growth of Engineering industries is dependent upon them. For this purpose the Association would suggest the development of coal industry on the lines of the recommendations of the Indian Coalfields Committee's report 1946-47 regarding conservation of coal, regional production and regional consumption and also better coal preparation methods for distribution. The industrial consumers of coal have been demanding the supply of coal on specification and this can be met only by the establishment of washing plants to clean all coal to standard specifications. There is too much laxity in the existing grading system and the consumers are content to accept coal of inferior quality at higher prices since standards are not officially enforced.

The second important mining industry which requires development on sound and systematic lines is the mica industry as mica sheets are required to be processed in a special manner for the development of our electrical industries.

Similarly, in order to help the establishment of more steel works, the development of iron ore industry in other provinces than those where they are already being mined is necessary. India has been an exporter of iron ore and the development of iron ore mining may help the country to earn foreign exchange.

Question 5.—The main development in the field of Engineering Industries since 1922 has been the development of secondary industries. Almost all the Engineering Industries excepting iron and steel have been developed after 1922. When the Indian Fiscal Commission reported in 1922, they made a survey of the economic position in India and regarding Indian industries they reported as follows :—

> "On the industrial side India has two great textile industries on modern lines, cotton and jute. In 1919 which is the latest year for which statistics are available, there were 277 cotton spinning and weaving mills employing 3,06,310 persons in addition to 1,40,786 employed in 1940, cotton ginning, cleaning and pressing mills. The jute industry possessed 76 mills employing 2,76,079 persons, besides 211 jute presses in which 33,316 persons were employed. Next after these two great industries come the railway work shops with 1,26,134 employees and rice mills with 48,563. Engineering workships, tanneries, tile factories, iron and steel works, mineral oil and many other industries employed appreciable numbers, but out of a total of industrial workers for all India which is returned at 13,67,136, the cotton and jute mills together with the gins and presses and the railway workshops account for no less than 8,82,625. The above figures relate to what are known as large industrial establishments and take no account of the important industry of coal mining which in 1919 employed 2,03,752 persons, nor of the numerous village or cottage industries of which far the most important is that of handloom weaving which is believed to provide employment for over two million workers." [1]

From the above it would appear that the Engineering workshops were summarily dismissed and the Fiscal Commission of that time did not take any notice of the development of these industries. The Association are not concerned about the reason for this treatment meted out to the engineering industries at that time and during the two decades following. But what is most important to consider is that the development of these industries even at that time was worthy of being recorded in order that the future industrial generation of India might have taken notice of the deficiencies in this regard and tried to fill those gaps in the industrial canvass of India in the years which followed.

The Fiscal Commission of 1922 summed up the industrial position of India in these words :

> "We find in the cotton and jute mills two important industries of modern type, a considerable diffusion of mechanical engineering represented by the railway workshops and the private engineering works which are now springing up, the beginnings of an Iron and Steel Industry and a number of mining industries, none of which has yet reached the stage of being a serious economic factor in the country. In addition there is a large production of mineral oil and there is the important industry of coal mining on the future of which the industrial development of the country largely depend. Finally, scattered throughout the country unorganised and handicapped by methods of marketing and finance that hardly permit them to rise above the lowest economic level is a vast army of handloom weavers." [2]

This was the industrial position in 1922 as surveyed by the Fiscal Commission. From the above it would appear that there were three types of engineering industries taken account of by the Commission, namely (1) Railway Workshops, (2) Private Engineering Workshops and (3) An Iron and Steel Industry which was reported as having made only a beginning. The Association are not surprised at this census of the Engineering Industries of which the notice was taken by the Fiscal Commission. At that time in the field of

[1] Report of the Indian Fiscal Commission 1921-22, pages 17 and 18, para 30.
[2] Report of the Indian Fiscal Commission 1921-22, para 31, page 80.

the notice was taken by the Fiscal Commission. At that time in the field of Iron and Steel Industry there were only the Tata Works at Jamshedpur and that too in a struggling state. Since 1922 the development of Engineering Industries in all the sectors has gone apace as would be evidenced from the following accounts which the Association give regarding the development of these industries.

Iron and Steel Industry.—The iron and Steel Industry in India comprises of two sections : (1) The basic industry and (2) the steel re-rolling industry. The basic industry is in the hands of main producers who manufacture steel by using the Bessemer Open Hearth Process. They melt the iron ore, make pig iron out of which they manufacture steel, whereas the re-rollers use either billets or scrap and five of the important units in this section of the industry are equipped with electric furnaces to make steel from scrap by electric process.

There are at present three workshops in the field of the basic steel industry, namely (1) Tata Works at Jamshedpur (2) Indian Iron and Steel Co., Ltd., and Steel Corporation of Bengal, at Burnpore and (3) Mysore Iron and Steel Works at Bhadravati. The Indian Iron and Steel Co., was floated in 1918 and later on was amalgamated with Bengal Iron Co., in 1936. The capacity of the newly amalgamated company was 850,000 tons of pig iron and 100,000 tons of cast iron pipes, sleepers and general iron casting per annum. The Steel Corporation of Bengal came into existence in 1937 and set up a steel plant adjacent to the blast furnaces of the Indian Iron and Steel Co. The new Steel plant commenced production on the 10th November, 1939. The capacity of the Works is about 200,000 to 250,000 tons per annum.

The third main producer of iron and steel is the Mysore Iron & Steel Works at Bhadravati. About the year 1920 the Mysore Government erected the Works with a productive capacity of 28,000 tons of charcoal pig iron per year. A surplus was left after being used for cast iron pipes and to take care of the surplus a steel plant was added in 1934. It is understood that the capacity of the rolling mills is 28,000 tons of light structurals and bars. There is also a rod and strip mill with a capacity of 5,000 tons of hoops and another 5,000 tons of rods of quarter inch and below.

Before the war of 1939 India was producing about 1,750,000 tons of pig iron of which nearly 60 per cent was used for making steel and the remainder was used in foundries in the country and exported outside. The chief markets for Indian Pig were Africa, Java, Ceylon, Burma, the U.S.A., Japan and the U.K. The quantity of finished steel manufactured came to about 750,000 tons per annum. In addition to these 750,000 tons of finished steel produced in India the country was importing about 150,000 tons to 300,000 tons per annum, thus brining the total consumption to nearly a million tons.

During the first year of the war, Tatas added a Magnesite Plant for the production of magnesite peas and magnesite bricks. In addition to this some other extensions have also taken place the most important of which are their Wheel and Axle plant and the Toluene plant. The Mysore Iron & Steel Works added a 25 ton basic furnace together with two small electric furnaces which has increased their productive capacity to well over 50,000 tons. Mysore has also manufactured ferro-silicon of the quality required, for the first time in India and India may be considered self sufficient so far as this alloy is concerned. The Steel Corporation of Bengal have added a new Duplex plant during the war.

Out of the ten blast furnaces working in India five belong to Tatas, one to Mysore and four to Indian Iron & Steel Co. Before the war wagons were manufactured in India but wheels, types and axles had to be imported. However, with the operation of the wheel and axle plant at Jamshedpur this need has been met. Another notable achievement is the manufacture of high silicon sheets for the requirements of the electrical industry of the country.

Alloy Steel.—The most significant development during the war time has been the manufacture of alloy, tool and special steels. Previously the production of alloy steel was only 250 tons per month which has now reached the figure of 1,000 tons per month.

Alloy steel is the steel of the future as ordinary carbon steel is being gradually replaced in many manufacturing processes by alloy steel since the latter gives more strength for its weight and resists corrosion. India is well placed for the manufacture of alloy steel. Even before the war, low alloy steel was successfully manufactured by the Steel Industry in India under the names '*Tiscor*' and '*Tiscrom*' but the impetus of war has given further confidence and experience in its manufacture since thousands of tons of special steels of varied specifications have been made in the country for munition purposes in electric furnaces and by other processes and it can be stated that the industry has mastered the preliminary difficulties. The Jog Hydro-Electric Scheme in Mysore when completed will add 64,000 H.P. from Sivasamudran and Shima Power Station to begin with. At its first stage of operation, Jog is expected to give 32,000 H.P. by 1956, and thus help to make Mysore the centre of alloy steel and other alloy metals industry, with its cheap electric power and chrome and other minerals found in the neighbourhood. As regards further development in British India of the industry of alloy steel and other alloy metals, help is required from Government (a) for provision of cheap electric power, (b) for a pilot plant to manufacture electrodes for electric furnaces since electrodes are a heavy item of expenditure in electric furnaces and practical research aided by Government is required to make electrode manufacture a success though many private parties have been experimenting in this line with varied results, and (c) for laying down specifications for Government requirements of tool steel etc., with a view to utilising the special alloy steels that can be made in the country mostly from materials available in this country. It may be stated here that the establishment of electrode industry in the country would be a great help to Aluminium Industry also. The alloy steel industry is the source of the very important industry of tool steel and machinery parts etc.; and as such requires fostering by the State.

Other Achievements.—Other war time achievements of the Indian Steel Industry are high speed steels for machine tools, high carbon steels for the manufacture of mint dies and certain other types of plain carbon for high explosive shells for ordnance purposes. The making of high carbon tool steel has already resulted in the expansion of twist drill manufacture. This may lead to the establishment of such industries as razor blades, files, cutters, knives, dies etc. Nickel steel plates for gun carriages and a special high alloy nickel manganese steel was also manufactured during the war. The Indian Steel Industry has also manufactured stainless steel. But it is understood that financial difficulties have come in the way of its development.

Steel Re-rolling Industry.—The Steel Re-rolling Industry is of recent growth. In 1919 the idea of starting the Steel Re-Rolling Industry was mooted out but attained maturity only in 1929. The first re-rolling mills were engaged in rolling scrap accumulated in railway workshops. Subsequently a better class of scrap was imported and billets were purchased from the main steel producers and these were rolled into useful sections required for construction and other purposes. Twenty years ago there were only 2 or 3 re-rolling mills in the country. But from 1935 onwards largely owing to the feverish re-armament boom in Europe, the industry got a fillip and by 1950 the number of mills rose to about 50. In the latter part of 1941 the war demand for steel became so heavy that the entire production of the re-rollers was taken over for military purposes. This abnormal demand encouraged the establishment of new mills and there arose as many as 150 re-rolling mills of all sorts and conditions.

There were 4 types of steel re-rollers during the war, namely, Class A-1, A, B, and C Class. A-1 were the mills which were highly efficient mills producing specialised products; class A, less efficient; class B still less efficient and class C least efficient. This classification was brought about during the period of the war in order to enable the Government to allocate the available raw material among these mills. B and C class re-rollers comprised the majority of the re-rolling mills and were about 90 in number. Five of these have established electric furnaces and they can be regarded as secondary producers. At present there are only two classes of re-rollers, *viz.*, registered and unregistered.

In the year 1933 the conditions obtaining in the Re-rolling Industry was subjected to expert scrutiny and investigation by the Tariff Board who reported as follows :—

"The industry is very new and inexperienced and for the most part poorly equipped...........we believe that as in England and elsewhere there is a place for these re-rolling mills in a well organised industry and that the growth of re-rolling section of the industry capable of dealing with small orders even of steel products which may complete with the output of the main steel producing works will be a natural and desirable outcome of the present tendency".

The most serious problem confronting the re-rolling industry is the acute shortage of raw materials. The stage has been reached when the re-rolling mills collectively must either put up their own steel making plant and be self sufficient in the matter of raw material supplies or they must enter into some agreement with the main producers which may enable them to put up further steel making capacity in their existing works exclusively for the re-rollers.

Before the war, this industry was protected by Government by exempting foreign billets, etc., from import duty and by not subjecting the re-rolling industry working on scrap or purchased billets to the excise duty which the main steel industry had to pay. These advantages to the industry should continue but something more has to be done to evolve order and rationalisation at least for the C class re-rollers who are apt to multiply inconveniently. The Government control on this industry has to continue because then it would be possible to admit some sort of rationalisation aiming at (1) zonal distribution of the industry to eradicate unfair local competition (2) standardisation of products to eliminate inefficient units (3) control of production to avoid overlapping and overproduction and to render scope for specialisation in different lines of production and (4) distribution of billets procured from the main steel industry.

Ancillary Industry :

Refractories.—There are various industries ancillary to steel production which have developed since 1922. These are refractories like silica bricks, fire bricks, magnesite bricks etc. the estimated annual consumption of these is as follows :—

Fire Clay Bricks	95,000 tons
Silica Bricks	25,000 tons
Magnesite Bricks	4,000 tons
Chrome Bricks	1,500 tons

The industry has made great progress since 1939 and the present production of refractories comes to about 190,000 tons per annum.

Ferro-alloys.—In addition to these all steel manufacturers use some ferro alloys. The simplest ferro alloys are ferro silicon and ferro manganese. The manufacture of ferro silicon has been started at Mysore during the war and it is considered that they shall be meeting a substantial demand of the country. Ferro manganese is also manufactured at Jamshedpur.

Associated Industries.—Since 1922 some other industries which are associated with the Steel Industry have been developed in the country. These industries comprise the manufacture of tinplate, bolts, nuts and rivets, steel castings, wire and wire products, wood and machine screws, expanded metal, wire mesh, wire gauge etc. These are all essential products in the industrial economy of the country. Before the war (1939) India's requirements of 23,000 tons of bolts, nuts, and rivets were largely met from imports. Tinplate industry was started some 25 years ago and has now been definitely established.

Tinplate Industry.—The establishment of the Tinplate Industry in India dates back to the year 1920 but the actual production of tinplate started in 1923. This industry came within the purview of the Tariff Board in 1924. The Tariff Board reported that the natural advantages which the industry for the manufacture of tin-plates were those which held good in the steel industry generally. The tin had to be imported but in this respect India was not

worse off than the United Kingdom. The progress of the Indian Tin-Plate Industry will be evidenced from the following figures of production :

Year	Indian Production (tons)	Imports (tons)	Total Indian Consumption (tons)
1929-30	35,081	31,087	66,768
1930-31	37,868	17,229	55,097
1931-32	38,306	7,584	45,890
1932-33	38,967	7,003	45,970
1933-34	45,270	7,240	52,510
1934-35	49,934	5,583	55,517
1935-36	51,839	6,488	58,327
1936-37	52,643	1,352	53,995
1937-38	53,431	7,441	60,872
1938 39	46,761	14,013	60,774

The progress of the industry since 1939 is indicated in the following table :

Years	Production (tons)
1939	59,065
1940	61,787
1941	57,340
1942	58,335
1943	68,408
1944	73,512
1945	62,216
1946	58,250

Steel Castings.—The Steel Castings Industry was also started near about 1922 and made rapid progress after 1935. This industry was examined by the Tariff Board in 1937 for protection and assistance. The economic position of the industry was summoned up by the Tariff Board in the following words :—

> "The industry at present works in a circle ; prices are fixed on the basis of present costs and costs cannot be reduced because prices are too high to secure orders sufficient to ensure an economic output".

The main difficulty in the way of growth was dumping by Continental firms.

The industry, however, developed as a result of the recommendations of the Tariff Board and the establishment of the Wagon building industry which was the second best consumer of steel castings the first being the railways themselves which ordered the wagons. During the war (1939-45) the industry witnessed a period of comparative prosperity. An additional demand for castings was created by the war-time purchases of the Government. In common with a number of other Indian Industries, the steel castings industry

was also subjected to Government control when it became evident that some measure of priority rating was absolutely indispensable to secure the most desirable sequence of deliveries. Accordingly a panel representative of almost the entire industry was constituted with representatives from the four important steel castings producers who between themselves command more than 75 per cent capacity of the entire industry.

The present potential capacity of the industry is about 13,000 tons of steel castings per annum. The bigger of the Indian foundries are laid out for mass production of railway castings such as axle boxes, rubbing blocks, buffer plungers etc. The industry today, however, suffers from a serious drawback for want of sufficient machining capacity.

Wire and Wire Nail Industry.—India owes the wire and wire nail industry to the pioneering efforts of the Indian Steel & Wire Products Ltd., which was formed in 1919. Actual operation commenced about 1923. The early history of this industry is full of vicissitudes and their progress during 1928-29 and 1932-33 will be evidenced from the following figures :—

Year	Wire	Wirenails
1928-29	1,898 tons	1,031 tons
1929-30	865 ,,	1,090 ,,
1930-31	1,819 ,,	1,554 ,,
1931-32	2,116 ,,	1,754 ,,
1932-33	4,95 ,,	,678 ,,

This industry too came in for review by the Tariff Board in 1932 as a result of which protection was granted to the industry under the shelter of which the industry made rapid progress. The present production capacity of the industry is as under :—

Name of the article	Productive capacity (in tons per year)
1. Bars & Wire Rods	60,000
2. H. B. Annealed Wire	43,000
3. Galvanised & Telegraph Wire	7,000
4. Barbed Wire	6,000
5. Wire Nails	4,500
6. Bolts, Nuts & Rivets	1,000

In addition to Indian Steel & Wire Products Ltd., there are other small manufacturers of wire nails in the country.

Wood Screw Industry.—The Wood Screw Industry has been developed in the country during the period of the last war. The industry came into being directly as a result of scarce conditions of supply created by the war. The present production of wood screws in the country is roughly 400 to 500 tons per annum. The demand is 2,000 tons per annum. The industry has been hard hit owing to partition and keen competition from abroad.

Bolts, Nuts and Rivets.—This industry has considerably developed during the last 20 years. The country imported roughly 23,700 tons of bolts, nuts and rivets before the war. The production of the industry at present is roughly 30,000 tons as against an annual demand of 50,000 tons.

Expanded Metal.—The Expanded Metal Industry owes its origin and development to the World War II. The present production of expanded metal in

the country is in the neighbourhood of 3,000 tons, which is not only sufficient to meet the country's demand but can enable the country to export some quantity outside.

Non-Ferrous Metal Industry.—The Non-Ferrous Metal Industries as they are at present carried on in India can be grouped as follows :—

1. Production of virgin metals from Indian ore deposits. *This is primary production.*
2. Reclamation of metals and alloys from scrap. *That is secondary production.*
3. Processing of metals into semi-manufactures, and
4. Fabricating and casting industry which makes finished products out of sheets, rods and bars etc.

Non-ferrous industries in the country have developed only recently. The increased war demand for non-ferrous metals and for the manufactures thereof gave a strong fillip to their production in the country and this has had notable influence on the mining of ore and on the refining of scrap. Great impetus was also given to the manufacture of the various alloys required for conversion into sheets, pipes, tubes, etc., required in electrical, automobile, shipbuilding, aircraft and other industries.

Production of Virgin Metals.—At present India produces aluminium, copper, antimony and lead among metals. The production of copper is about 6,000 tons, antimony 250 tons, lead 100 per annum.

Aluminium.—The present productive capacity of aluminium industry in India may be taken at 3,500 tons per annum for each of the two factories in the country. This will meet the entire demand for aluminium in the country.

The Aluminium Corporation of India manufacture metal from alumina produced from Indian bauxite and turn them into bars, sheets, and circles. The Indian Aluminium Co., Ltd., use both indigenous and imported alumina. They manufacture ingot, sheets and circles etc.

The greatest danger to the Indian industry is the enormous increase in the production of aluminium during the war period in countries like Canada, Japan and the U.S.A. To give an idea of the enormous increase it may be stated that according to the Canadian Minister of Munitions during the war, Mr. Howe, the production in Canada was as follows :—

1939	83,000 short tons
1942	3,35,000 " "
1943	5,03,000 " "

There are three important industries connected with aluminium :

(1) The production of Metal from bauxite.

(2) Fabrication of the metal into bars, sheets and castings.

(3) Manufacture of consumer goods.

Aluminium industry has become very important because of increasing use that is made of aluminium in the automobiles, aircraft, chemical and other industries. Besides owing to its lightness and comparative cheapness, aluminium is required in many other industries like chemical, metallurgical etc. The War of 1939 has shown the great importance of aluminium which was used in the manufacture of auxiliary parts of electrical transformers, field telephone parts, scientific instruments, aluminium cables & conductors etc., etc. For active industrialisation of the country the aluminium industry must be protected in order that it gets established in the country.

Copper.—India has only one copper smelter belonging to the Indian Copper Corporation Ltd., in the province of Bihar. The first refined copper in India was produced in 1929. It produces about 6,000 tons of copper by treating about 350,000 tons of ore. In addition to virgin metal they manufacture brass and copper sheet and strip etc.

Antimony.—One of the important developments during the war was the beginning of manufacture of antimony in the country. There is only one smelter situated at Bombay which now uses imported antimony ore from Brazil after the partition of the country as their original supply used to come from Chitral

in the N.W.F.P. The present production is about 250 tons per annum. The industry was examined by, the Tariff Board for protection and assistance and enjoys protection as accepted by the Government.

Lead.—The present production of lead is about 100 tons a year which is rather insignificant as compared to the demand which comes to about 8,000 tons of lead both wrought and unwrought. The demand for lead sheets is likely to go up on account of development of electrical industries. Lead sheets, accumulator plates and lead pipes are all manufactured in the country.

Tin.—Tin industry is an important branch of the non-ferrous metal industries because of its extensive use. It is used in the manufacture of anti-friction metal and solder. It is also used for the condenser manufacture in the electrical industry. During the war an attempt was made to refine imported tin from Burma but the industry was lost owing to absence of imports when Burma became an active theatre of war.

Miscellaneous Virgin Metal Non-Ferrous industries.—Under the miscellaneous group fall such industries as nickel, magnesium, manganese, bryllium, arsenic, barium, titanium, chromium etc. The following table will indicate at a glance, India's production of these metals and their consumption :—

Name of the metal	India's demand	India's production
Nickel . .	3,000 tons per annum . .	Nil Some 2,000 tons per year of Nickel Silver is also imported into India.
Magnesium . .	Exact tonnage is not known but Indian consumption is very little.	About 43,000 tons of Magnesite was mined in India in 1939. The whole of it is exported.
Manganese .	Exact tonnage is not known .	Only a small fragment of the quantity mined was uptil recently smelted for the production of ferro manganese. Some 20,000 tons of ferro manganese is being manufactured annually. Over 95% of Manganese is exported. India is one of the two principal producers of high grade Manganese in the World.
Bryllium . .	Very little	Rajputana produces excellent Bryl for export. Between 1932-35 it exported between 100 to 300 tons annually.
Arsenic . .	About 200 tons	Before the War Arsenic compounds were extracted in Chitral. Exact tonnage is not known, but there are enough deposits to start an industry to meet the Indian demand both as metal and as compound.
Barium . .	Exact tonnage is not known but is it extensively used in the paint, ceramic and glass industries.	In 1941 the total Indian production of Barytes, the chief ore of Barium was 22,250 tons which was chiefly used in the Paint Industry.
Titanium . .	Not exactly known . .	The Bauxite deposits now worked for Aluminium Manufacture contain appreciable quantities of Titanium which can be recovered as a bye-product. No commercial production is at present undertaken.
Chromium . .	About 15,000 tons . .	During war years the production was about 50,000 tons but it can be developed further.
Tungsten . .	The present consumption of tungsten is not much but with the future expansion of the steel industry it is likely to be considerable.	Production not undertaken at present. Wolfram which is the chief ore of Tungsten is found in workable amounts in Rajputana and C.P. but no estimates of the reserves have so far been made.

Non-ferrous refining industries.—Refining of non-ferrous metal scrap is an important industry. In countries where there is a paucity of virgin metal every effort has to be made to refine the scrap. During the war this industry has developed considerably.

Non-ferrous Metal Manufacture.—During the war India has made great strides in the processing of non-ferrous metal alloys and could have made still better progress had it been possible to import modern plant with trained personnel. The greatest development has been in the production of wire, strip and rod, a field which has hardly been touched before the war of 1939. The country is now manufacturing all types of non-ferrous metal products like brass and copper wire, sheet and strip, rods and bars, lead pipes and lead sheets, bearing metals, gun metals, phosphor bronze, brass and copper sheets etc.

The non-ferrous metal industry in India is in its infancy and this country has a long way to go if she is to take her proper place among the non-ferrous producers of the world. Specially, in view of her paucity of raw materials, active steps are called for. If India uses her opportunities well and gets astride in time not only will she be able to supply her own expanding markets but may also capture a portion of the eastern markets.

Machine Tools.—Machine Tools is one of the most important industries which has developed during the war. Before the war there was no regular machine tool industry in India. Just before the war, the great majority of the machine tools were imported. But during the war considerable development took place in this field.

The machine tools manufactured in India comprise, among others, lathes, drilling machines, planing machines, shaping machines, moulding machines, grinding and polishing equipments, shearing machines. The production of machine tools during the last year came to about 1691. There are about a dozen first-class manufacturing firms in the country and the machine tool industry has now definitely come to stay in the country.

The industry was examined by the Tariff Board in 1946 but the working of the recommendations of the Tariff Board has been such that the industry has not been able to get any relief. The importance of the machine tool industry to the national economy of the country is very great. In a country like India where industrialisation has just begun a flourishing machine tool industry would be a powerful factor in the establishment of new industries and the development of existing ones. The machine tool industry cannot well exist anywhere but in a large industrial country and we feel that the plans of industrial development for future India will provide the machine tool industry with a great opportunity. "Just as cotton is the first industry to be set up when an agricultural country embarks on industrialisation so the manufacture of machinery will be the last but one and machine tools last of all". It is extremely necessary that a strong machine tool industry is maintained as a part of public policy.

Small Tools.—Under small tools are included (1) hand tools such as pick axes, shovels, chisels, screw drivers and (2) metal cutting tools like twist drills and (3) wood working tools. Before the war the small tool industry was not very much developed. The indigenous production could meet only 10 per cent of India's total demand, the remaining 90 per cent being imported from abroad.

During the war the industry got a strong fillip. In war time the production of small tools had been increased considerably as would be evidenced from the following figures of average annual production :—

Hammers	5 lakhs
Pliars	3 lakhs
Chisels	3 lakhs
Screw drivers	3 lakhs
Drills	4 lakhs

The small tools industry operating in India produces a large variety of small tools and there are several factories big and small in the industry. The tools manufactured by the industry have now reached a high degree of precision and the industry is adequately financed and manned by suitable technical personnel.

Mechanical Engineering Industry.—Mechanical Engineering is that branch of the Engineering Industry which concerns with the shaping, processing and treating of metals. In India the industry first started with the repairing of machines, their parts and other appliances. Thus in the first stage this industry was engaged in repairs etc. The second stage in the development of mechanical engineering envisaged making of parts of machines, and in the third stage the development of mechanical engineering witnessed the manufacture of industrial plant and machinery, prime-movers and other types of machines.

Industrial Plant and Machinery.—This industry has made a headway only recently. The range of manufacture of industrial plant and machinery is so varied that it is not possible for us to indicate all the items. The Association, therefore, make only a passing reference to these industries in order to indicate the development that has already taken place since 1924.

Textile Machinery.—The manufacture of textile-machinery in India was started after 1930. The country now manufactures in the field of spinning machinery, spinning rings, ring frames, flutted rollers and a large number of spares. In the field of weaving machinery the country manufactures looms and all the necessary parts. The industry is quite self-sufficient in regard to the manufacture of finishing machinery like dyeing, bleaching, etc. One of the long-felt difficulties of the textile industry has been that it has had to depend on foreign countries for the fabrication of textile machinery and parts with the result that in times of crisis like war its efficient working and expansion are seriously hindered. The establishment of the textile machinery industry, therefore, fills an important gap in the industrial economy of the country.

Sugar Mill Machinery.—After the textile machinery, sugar machinery ranges first in the list of India's requirements for industrial plant and machinery. The manufacture of sugar machinery on any large scale has recently begun in the country and there is a large number of factories doing casting work for sugar machinery and others which manufacture sugar machinery parts. Regarding the ability of the Indian Engineering industries to manufacture sugar machinery the Sugar Panel appointed by the Government of India in their report observed as follows :—

> "Detailed enquiries have been made by the Institute to ascertain the possibilities for the fabrication of sugar machinery by engineering firms in India. It has been found that there are several such firms possessing equipment suitable for this type of work who would presumably gladly take it up now that the pressure of work in connection with the war is reduced. The Panel accordingly recommends that a Central Export Organisation attached possibly to the office of the Sugar Controller or the Imperial Institute of Sugar Technology, Cawnpore, should be set up for ascertaining requirements ; or classifying and consolidating them ; for the programming of their supply ; for the preparation of supply of design ; and for organising contacts between factory owners and engineering workshops".

Vegetable Ghee Plant.—The manufacture of vegetable ghee plants in India is carried on its entirety. The industry has already supplied complete plants including post and pre-refineries and hydrogenation to a number of firms manufacturing vegetable ghee. The foundry, machine shop, and structural shops are well equipped for the fabrication of these plants. The Indian industry is able to guarantee earlier deliveries, efficient working, and service facilities.

Fine Chemical Plants and Machinery.—The manufacture of parts of chemical plants has been carried on in India for some time past. Rotary driers stills, acid pots, evaporators etc., have been manufactured in the country. Similarly, water softening plants, filters and a large number of others are being manufactured in the country. If the proper materials could be locally produced, many of the standard equipments can very easily be made in the country.

Soap and Cosmetic Machinery.—The Indian Engineering Industries are also manufacturing machinery for soap and cosmetics industry. Machineries like soap plodding machines, soap kettles, caustic soda tank, soap calling frames are all being manufactured in the country.

Miscellaneous group.—There is no planned production of machinery required by cement, paper, paint, rubber factories etc. The Engineering firms in the country have, however, in the past manufactured machinery parts according to the requirements of individual parties and these industries may now be regarded as having begun regularly though in a small way.

Diesel Oil Engines.—The pioneering efforts in the field of diesel oil engines have been made by M/s. Cooper Engineering Ltd., Satara, which was started in 1922. In 1932 the manufacture of internal combustion engines was introduced with a range of solid injection type diesel oil engines in sizes from 7 B.H.P. to 20 B.H.P. During the war the manufacture of these engines had to be stepped up. Their range of industrial engines now includes cylinder, horizontal, cold starting, solid injection 4 cycle types from 4 B.H.P. onwards : twin cylinder type from 100 to 200 B.H.P. and 4 cylinder type from 200 to 256 B.H.P. together with the recently introduced design of 10 B.H.P. high speed engine operating at 1,000 R.P.M. M/s Kirloskar Brothers Ltd. another firm of pioneering engineers has established a factory at Poona for the manufacture of diesel oil engines. Their programme of manufacture includes from 5 B.H.P. to 300 B.H.P. to start with. They have already started manufacture since last year.

Road Making machinery.—The chief items under road making machinery are Bitumen boilers and mixers. These items are being manufactured in the country for some time past and the present production comes to about 1,000 pieces per year. The present production capacity of asphalt mixers and concrete mixers comes to about 60 pieces per annum.

Road Rollers.—The manufacture of diesel engine road rollers has also now been started in the country. The Government of India have a contract with M/s. Marshalls of Gainsborough, England for the manufacture of 1,000 road rollers. Tata Locomotive and Engineering Co., Ltd., are the sub-contractors of M/s. Marshalls and they are at present making in co-ordination with M/s. Marshalls 20 road rollers a month. M/s. Jessop & Co., Calcutta are also manufacturing road rollers for the Government.

Manufacture of Boilers and Locomotives.—A subsidiary of the Tata Iron & Steel Co., the Tata Locomotive and Engineering Co., Ltd., have successfully started the manufacture of boilers for locomotive after overcoming the initial difficulties. They are making now 4 to 5 boilers per month. This company's programme is to make ultimately 100 locomotives per year and 100 additional boilers, whereas Government locomotive Factory at Mihijam now under construction will make 120 locomotives and 50 additional boilers per year.

Weighing Machines and Jacks.—The manufacture of weighing machines in India was started much before the war and two of the important units that were engaged in this line of manufacture are the Star Iron Works, Lilooah, and the India Machinery Company Ltd., Calcutta. The growth and development of sugar industry and later on the war of 1939 gave a strong fillip to the industry and the productive capacity of the firms expanded greatly. The increased production was achieved by the old firms due to their greater concentration on this item.

There is a vast field for the weighing machine industry in India in the manufacture of new types.

In addition to weighing machines, jacks are also manufactured. In 1943 India produced some 15,000 jacks but there exists a capacity for over 75,000 units per annum.

Water fittings.—Before the war there was no organised production of water fittings of standardised designs. India had to depend largely upon imports for her requirements. But during the war the manufacture of these articles was encouraged by the Government by placing large orders with them and supplying raw materials at controlled rates.

The raw materials required for the manufacture of water fittings are ; brass, copper, gun metal ingots, scrap and zinc. The brass and gun-metal ingots form the basic raw material. These are melted in small crucible furnaces and the molten parts are then treated on lathes and various other operations of screwing, threading and cutting the grinding etc., are performed. Then the parts are fitted, chilled and buff polished.

The industry has made considerable progress during the war years. The Indian production of water fittings like bib cocks, glob valve etc., are produced in sufficient quantities and good quality.

Centrifugal and Hand Pumps.—The industry existed in India before the war, the four important firms engaged in the manufacture of centrifugal and hand pumps being M/s. Kirloskar Brothers Ltd., Kirloskarvadi, M/s. Jtoyi Ltd., Baroda, M/s. P. S. G. & Sons, Coimbatore and Maya Engineering Works, Calcutta. As a result of the impetus given by the war several other small firms came into the field to meet the civilian demand because the manufacture of these old established firms went to meet the demand of the Government. During the war the production of Centrifugal pumps received a set-back on account of non-availability of ball and roller bearings but it has now gained momentum again because the war time difficulties do not exist.

Hand operated pumps are also manufactured in India by a large number of firms. In the case of hand pumps India's production is quite sufficient to meet the demand.

Electrical Engineering Industries.—The development of electric power is a great desideratum for the development of all modern industries. It is a chief motive power for industries. In addition, electricity is essential for raising the standard of living of the people. The development of electricity meets the shortage of coal and oil fuels. The electricity will also be required for transport purposes, specially for the electrification of railways, in order to conserve metallurgical quality of coking coal and in the extended use of tram cars, consumption of electricity would increase greatly. The use of electricity in lighting and air conditioning is daily increasing. India possesses vast natural resources for generation of Hydro-Electric Power. The potential reserves are estimated at about 27 million Kilowatts of which about half a million Kilowatts only have been used so far.

With the greater consumption of electricity, the development of electrical engineering industries had taken place before the war cf 1939. These important electrical industries, namely, electric wires and cables, electric fans and electric lamps had got definitely established. The manufacture of electric motors, transformers etc., had begun on a small scale before the war of 1939. The war of 1939 presented a tremendous opportunity to the development of the existing electrical industries. The industries that greatly expanded their production were electric fans, lamps, motors, wires and cables and secondary batteries, dry batteries and cells distribution transformers and electric lighting accessories. Since the Fiscal Commission reported in 1922, all the electrical industries have developed in the country beyond measure. It is significant to note that inspite of the adverse circumstances obtaining in the country, electrical engineering industries were the few of those which did not at all approach for protection.

Electric Fans.—Electric Fan industry in India was started in 1924 by the India Electric Works Ltd., which for a considerable time remained the only manufacturer of Electric Fans in this country. The success achieved by this pioneering Company attracted other firms to come into the field and before the war of 1939 half a dozen factories had been established. The pre-war production of electric fans of India came to about 30,000 ceiling fans and 5,000 table fans, the table fans being manufactured by India Electric Works Ltd.. alone.

When the war broke out, electric fans were in great demand and the production of electric fans increased greatly as would be evidenced from the following figures.:—

Year	*Ceiling fans*	*Table fans*
1940	47,800	9,600
1941	38,000	6,800
1942	38,400	11,000
1943	41,200	10,000
1944	1,05,000	30,000

It is estimated that India's present production is about 180,000 per annum with the production capacity at 300,000. The country is self-sufficient in this product and if more raw material is available, it is expected that the industry can leave an exportable surplus.

Electric Lamps.—The manufacture of incandescent electric lamps was started in India in about 1929. Before the war India was consuming about 14 millions of bulbs of which about 11 millions were imported.

The war gave a tremendous fillip to this industry as well as the production during the war years was of the following order :—

1942	...	...	...	...	3¾ millions
1943	...	...	...	...	3¾ millions
1944	...	...	...	...	5 millions

At present there are 12 lamp factories in India their total production capacity comes to about 15 millions of bulbs per annum. By 1950 the capacity is to be greatly increased. The production of electric lamps in 1947 was 7.62 millions and in 1948, 9.13 millions. By 1949 the industry hopes to have an exportable surplus.

Electric Motors.—Electric Motor Industry in India was also developed after the appointment of the previous Fiscal Commission. The present production capacity is about 20 thousand motors per annum. The Kirloskar Electric Co., Ltd., Bangalore which was started a couple of years ago has plans to manufacture motors up to 300 H.P. The power is the life blood of modern industries and as such the development of electric motor industry has a great national importance.

Electric Wires and Cables.—Before the war of 1939 there was only one concern in India namely Indian Cable Company, a British concern in origin. But its production was small and major portion of India's demand for wires and cables was met by imports. When the war broke out, the import fell off and the Government of India was faced with the problem of enhancing the local production. As a result another important unit was established under the name and style of National Insulated Cable Co. of India Ltd., who established a factory in C.P. and later on removed it to Calcutta.

The Indian Cable Industry at present is manufacturing bare copper wire, cotton covered wire, enamelled wire, and V.I.R. cables. The manufacture of cables and wires in 1948 was as follows :—

Bare copper conductors	5,880 tons
V.I.R. Cables	22 million yds.

India has now begun to manufacture winding wires as well on a small scale, the production of which in 1948 was 330 tons.

Electric Lighting Accessories.—Accessories for electric lighting include tumber switches, ceiling roses, plugs, wall sockets, cutouts, lamp holders etc. The industry has been started after the Fiscal Commission reported in 1922. During the war, the development of the industry was held in abeyance on account of non-availability of bakelite powder, but however, the industry made a great headway on account of the help rendered by the Government. The present production of the industry is in the neighbourhood of 300,000 dozens of all types of electrical accessories. The industry has been recently examined by the present Tariff Board for protection and assistance.

Conduit Pipes.—Conduit pipes are pipes made of steel which are used for covering electric wires.

They are of two classes (1) solid drawn and (2) welded. Both of these types may be either galvanised or black enamelled.

Before the war Conduit Pipes were not manufactured in the country. The industry was started during the war. The industry is mostly in the hands of small manufacturers as the industry is a simple one.

Black Adhesive Tapes.—Black Adhesive Tapse are used for electric insulation. This industry was also started during the war. The total production at present is abcut 5 tons per annum.

Distribution Transformers.—Distribution transformers of standard and industrial types up to 500 KVA capacity and up to 11,000 volts capacity on the H.T. side were first manufactured in 1936 by the Government Electric Factory, Bangalore. During the war, the industry expanded and two more companies namely the Associated Electric Industries (India) Ltd., Calcutta and Crompton Parkinson (Works) Ltd., Bombay also entered the field. The installed capacity is 175,000 KVA and 1947 and 1948 production figures are 23,000 KVA and 82,000 KVA respectively. In terms of quantity the production during the war years was as follows :—

1942	200
1943	600
1944	1,500

The pre-war figure was only 60.

Dry Batteries and Cells.—The manufacture of dry batteries and cells was started before the war of 1939, but imports on a large scale principally from the U.S.A. were also coming in. The Estrella Batteries, Bombay and National Carbon Co., Ltd., Calcutta, are the principal manufacturers of dry batteries and cells. War gave a great impetus to this industry which now comprises dry batteries for aircraft wireless equipment, field telephones and testing apparatus, etc. The number of batteries manufactured in 1948 come to 123,830,055.

Secondary Batteries.—Secondary batteries which are otherwise known as electric accumulators are mostly used by the motor car industry. The two important Companies before the war were Amco Ltd., Bombay and Estrella Batteries, Bombay. Now there are many other firms engaged in the production of motor car batteries. There are two types of these batteries namely (1) lead acid type with plates and lead dilute sulphuric type as electrolite and (2) Alkaline type with composition of iron and Potassium Hydrate as electrolite. The production of motor car batteries in 1948 was 100,000 in number, the demand being about 250,000 in number.

Broadcasting Receivers.—There are a large number of small factories manufacturing broadcasting receivers in the country. The National Radio and Engineering Co. of Bombay is the only large manufacturer of necessary components. This firm has already been carrying on the manufacture of a variety of components on a pilot scale and has a small chemical laboratory to help processing of raw materials. It is understood that the National Radio Engineering Co., Bombay and R. C. Co., Ltd., London have entered into an agreement for further development and Radio manufacture and distribution in India. The Mysore State, it is understood is planning to set up a radio factory in collaboration with a well-known Continental Radio Manufacturer.

Ball Bearing.—A factory for the manufacture of ball bearings and steel balls is being set up at Jaipur by Messrs. National Bearing Co., Ltd. This factory is expected to begin production in another two months' time. Ball bearings are required for a large variety of mechanical appliances and the establishment of this industry on proper lines should be regarded as a great national asset.

Structural Engineering.—Structural Engineering is one of the most important branches of engineering industries. It is a specialised industry and requires a large workshop and mechanical equipment on a large scale. The work carried on is mostly of the jobbing nature which implies that the same machinery can be utilised for manufacturing a large number of structures of widely different varieties. In normal times India produces the following categories of structural :—

(1) Aeroplane Hangars of various designs and construction
(2) Jetties
(3) Press steel tubs, cisterns etc.
(4) Building Steel Work
(5) Railway Bridges
(6) Steel Frame Structures for building, workshops etc.
(7) Floating docks etc.
...per

The industry is highly concentrated in and around Calcutta and in the Provinces of Bihar and Bombay.

During the War, the industry manufactured floating docks which was one of the important achievements of the industry. Before the war India's capacity for structural engineering, was not utilised in full the war time demand gave strong fillip to the industry and the capacity may now be estimated at anything between one lakh and one half lakh tons per year.

Shipping and Ship Building Industry.—The dead weight tonnage of present Indian merchant marine is about 5,50,000 tons. Progress has been made but at a heavy cost. Last year the Scindia Steam Navigation Company called for new capital and its shareholders contributed Rs. 7,30,000 for the development of this industry. It further issued Rs. 5 crores worth of debentures to finance its forward looking policy. It has two overseas services. Six ships are run on India/America route and eight ships are run on India/U.K. Service. Scindia is also co-operating with the Government of India in the formation of Indian Eastern Overseas Shipping Corporation which will have a capital of Rs. 10 crores in financing which Government will provide 51% of the capital and Scindia 49%. This first of the proposed three semi-nationalised corporations will operate in the Near East, Far East and Australia. This is the first important step taken by Government since the publication of the Policy Committee's report on Indian Shipping in 1947. The present target is 2 million tons of merchant shipping for India in the next five to seven years. As regards shipbuilding, the target is 150,000 tons annually for the next five years. Besides Scindia, the Indian Steamship Co., Ltd., of Calcutta has also started overseas service.

Some of the present difficulties of Indian Shipping are given below.

We have elsewhere dealt with the adverse effects of partition on our shipping industry, the unequal treatment of our ships at Karachi and Chittagong, the congestion of the Bombay port owing to diversion of cargo for Upper India traffic previously shipped to Karachi and routed through the N.W.R. Pakistan's tonnage of shipping is 88,000 tons of which 46,000 tons are owned and the rest chartered.

The disturbed conditions in Burma have shrunk the import and export business of India with that country. For instance previously India was importing 18 lakh tons of rice per year from Burma; this is now reduced to 2½ lakh tons.

There is so much congestion at the Bombay port and the idle time spent at that port before getting a berth for loading or unloading has so much increased, that some steamer lines have ceased touching at Bombay, because the cost of each idle day spent at port for an 8,000 tonner is about £500. Owing to the inordinate delays in getting a berth at the Chittagong harbour, both Scindia's and Indian Steamship Coy's steamers have ceased to call at Chittagong. Previously the average number of days spent in a port in a year were 168 and those at sea 197; now it is the reverse corresponding figures being 219 and 146 with great loss to the steamship companies.

Steamship Companies' business with Karachi has declined. For instance Scindia did business with Karachi and earned freight of Rs. 20,39,000 from July to December, 1947 whereas the business from January to June 1948 was only worth about Rs. 8,21,000.

Seamen's wages have gone up five times the prewar wage. There is a great dearth of dock officers and engineers to man new ships. Government is looking into this question. The present congestion in the Calcutta port is due partly to the insufficiency of river pilots. During the war there were, it is reported, 42 pilots; now the number is reduced to about 25. It takes 2½ years, to train new pilots.

It is not possible to finance the replacement of old ships with new from the depreciation funds as the new ships cost three to four times the original value whereas the depreciation fund has been built up on the basis of original value and not replacement value. In other words when Government is allowing depreciation allowance on the basis of original value of ships and taxes the rest of the revenue, it is taxing partly capital and not revenue.

Scindia has completed Jala Usha, an 8,000 tonner in the Company's yard at Vizagapatam. Jalaprabha has been launched and Jala-Prakash is under construction. Jala-Usha cost 68 lakhs of rupees nearly double the amount of a British ship of the same type and tonnage. It was a pioneer venture. There were a number of difficulties to be overcome practically everything except ship plates and a few steel sections had to be imported; labour which had to be trained for this new industry went on 3 months' illegal strike and usual delays in respect of foreign material delayed the completion of the ships much beyond expectation. When these unfavourable factors are taken into consideration, the heavy cost is not surprising since it is calculated that to construct this type of 8.000 tonner would have cost over Rs. 96 lakhs in Italy, over Rs. 73 lakhs in Canada and over Rs. 69 lakhs in Australia. In other words if we have to have a modern merchant marine for purposes of trade and defence, we must pay the cost, heavy as it may be since it appears that neither our merchant marine shipping nor our ship building in the present circumstances can subsist without subsidy from the State. Again the old question arises. Where is the money to come from? Unless both workers and employers venture forth and work hard to produce new wealth to support nation building activities of the State we should remain content to be a fourth rate State at the mercy of any agressor nation.

One of the reasons that moves the Government of India to help in the development of Indian shipping is the saving of dollar exchange by bringing food from hard currency countries in Indian bottoms. It is understood that in 1946 the total freight charges paid on food grains into India amounted to Rs. 17 crores. Out of this about Rs. 4 crores were paid on dollar ships; also from April 1, to August 14, 1947, the total freight charges were Rs. 22 crores, freight charges on dollar ships amounting to Rs. 1.95 crores. At present it is calculated that the current freight charges per ton of food grains from the U.S.A. is about 19 dollars which works out to 20% of the cost of the food grains. This would indicate the measure of economy in dollar exchange attainable by bringing food from hard currency countries in Indian ships.

Engineering Stores.

Coated Abrasive Industry.—The Coated Abrasive industry was started in India in 1938. Coated Abrasives are essential in engineering and other industries for abraiding, polishing and sharpening metals of all types. There are 4 important producers of abrasives and the total production capacity of the industry is about 200,000 reams per annum, the production during the year 1948 being 40,600 reams.

Belting.—The belting industry of India was started in 1929 by the Bengal Belting Works Limited, Calcutta. The entire industry is located in and around Calcutta. The industry is capable of meeting the entire demand of the country. Industry manufactures all types of belting both canvas and hair. The production in 1948 was 661 tons as against the total capacity of about 1500 tons per annum.

Steel Belt Lacing and Belt Fasteners.—The steel belt lacing industry was started during the war and is in a position to meet a portion of India's demand. Similarly belt fasteners are also manufactured in the country on small scale.

Grinding Wheels.—Grinding wheels are essential for engineering industries. They are required mostly for grinding iron and steel materials. There are two firms manufacturing grinding wheels in the country and the industry is a protected one.

Scientific Instruments.—The industry is only of recent origin. There are about half a dozen of firms at present manufacturing scientific instruments in the country. In the present set up of the industry, one of the standing problems is to standardise the types of instruments produced and used in the country

Railway Engineering.—There is a number of engineering workshops in the country manufacturing railway engineering stores of all types and description. This industry has considerably developed and almost all the railway engineering requirements can be produced in the country. Railway wagons are manufactured in the country by four firms. The total output before the war was about 3000 wagons per year

Automobiles.—General Motors and Ford Motors have, for a long time, large workshops equipped to assemble imported parts of automobiles. Other followed in the line and they have done good work in the training of workers in this special line. There are also Indian Companies solely devoted to such assembly work. These plants in 1947 assembled 10,433 cars and 9,418 trucks.

Hindustan Motors Ltd., registered in 1942 are the first to set out in the difficult venture of manufacturing motor cars in India. Their paid up capital is Rs. 5 crores and their well-laid out main workshops near Calcutta was completed in 1948. They have entered into agreement with Morris Motors and Studebaker Export Corporation for technical assistance.

Messrs. Premier Automobiles Ltd., Bombay were registered in 1944 with an authorised capital of Rs. 10 crores of which 2½ crores is the issued capital. They are connected with Chrysler Group of U.S.A. and will manufacture Dodge, Desoto Motor cars and Dodge and Fargo trucks. Their assembly plant has started operation since 1947. It is understood that Messrs. Austins have also entered into agreements with a firm which has been registered in Madras under the name and style of Ashoka Motors Ltd.

Bicycle.—Bicycle industry in India has been started during the war. There are at present 3 cycle manufacturers in the country, one in Bombay, one in Patna; both of which are manufacturing complete cycles and factory No. 3 at Calcutta restricting itself to make cycle accessories. The manufacture of bicycles in 1948 came to 64,740 numbers.

Air Transport Industry.—In India we have also now begun to manufacture aircrafts in addition to operating air lines. Hindustan Aircraft Ltd., was formed to undertake the manufacture of aircraft in India. From August, 1942 to 31st March, 1946, this organisation was under the sole control of Government mainly repairing U.S.A. and R.A.F. air-crafts. From 1st April, 1946 this organisation started work as a commercial concern, the Mysore Government and the Government of India being the principal shareholders. This Company has also undertaken as a temporary measure construction of railway coaches and several coaches have already been supplied to the Railway Board. Very important from the national point of view is the work the company is doing on designing and construction of aircraft in India. It employs about 3,800 literate men who make an efficient labour force for the Company. This is a unique achievement for the industry.

Light Engineering Industry.—There are a number of other engineering industries like manufacture of Hurricane Lanterns, Malleable Iron Castings, steel furniture, manufacture of containers etc., which is carried on in the country. The manufacture of sewing machines is carried on by Messrs. Jay Engineering Works Ltd., at Calcutta whose present production is 2500 machines per month There are about half a dozen concerns engaged in the manufacture of Hurricane Lanterns whose total production in India in 1948 came to about 2 millions of lanterns. Malleable iron castings are made by two concerns in the country and they supply the requirements of Jute, Cotton Mills, and Railways etc. Steel furniture Industry is now well established and can stand on its feet without any fear of foreign competition. Another important industry which is being carried on in the country is the manufacture of tyres and tubes whose production during 1948 was Cycle tyres 3,160,000, Cycle Tubes 4,00,000, Motor Hyres 790,000, Motor Tubes 730,000.

The country also has an enamelled ware industry. It can meet the total demand of India.

Question 6.—*Lines of Manufacture.*—The Association would give below the main deficiency of the country in the matter of engineering industries. In the field of Iron and Steel Industry, the country requires a modern automatic cold rolled steel strip mill special steels of the types that are not yet manufactured; high tensile steel wire for wire ropes, electrodes, certain ferro-alloys, stainless steel sheets, etc. In the field of non-ferrous metal industries, the country requires the development of almost all the virgin metals except aluminium, the production of which is sufficient to meet the demand of the country for the present. Although a good start has been made in providing facilities for the

production of heavy machinery but the country has yet to go a long way in developing her heavy machinery industries. Similarly in the field of heavy electrical industries, the country is deficient. The average facilities which constitute the basis for building an electrical machinery industry are sadly lacking in the country. The country also requires enamelled wire, winding wire and insulating materials industries. Caps and wires for lamp industry are also necessary. A start has been made in establishing a machine tool industry but for the manufacture of heavy machine tools facilities are not yet available in the country.

In regard to the deficiency in the lines of manufacture we would like to point out that it is very necessary that the branch of the engineering industry which deals with design and manufacture of dies, Jigs and small tools etc., requires special technical knowledge and workmanship and should be developed as it will greatly relieve the burden of all the engineering concerns.

At present the difficulty of the manufacturer in India is that he has to manufacture all the things from A to Z from a small tool to huge castings. It is not so in other countries. This involves huge capital outlay all round, and employment of a large number of workers. It is, therefore, essential that we should rationalise our manufacture.

Volume of Production.—No statistics are available with the Association.

Overhead and operative cost.—Overhead and operative costs in Indian factories are very high. The cheapness of Indian labour is not borne out by facts as the productive efficiency of an Indian worker is not the same as of his counter-part in the west. Experts opine that even under Indian conditions, the efficiency of labour can be substantially increased provided labour decided to put in more effort.

Quality of Management.—With certain exceptions the quality of management in India is not as satisfactory as it should be. Management requires improvement on the lines of the western countries and the Association feel that the introduction of scientific management in Indian industries would go a long way towards introducing improvement.

Supply of Capital.—Capital in India is scarce and the formation of capital is rather stagnant on account of high taxation of corporate and individual profits. For successful industrialisation of India, it appears that the Government will have to finance expansion of existing plants and establishment of new ones.

Availability of Raw Materials, Fuel and Power.—Iron and Steel is the bread of engineering industries and it is very scarce. Since the war has ended most of the engineering industries have been working at much below their capacity and it is very necessary that production of steel should be enhanced. Efforts should also be made to manufacture locally the raw materials which are at present imported from outside.

Availability of High Grade Technical Ability.—There is a great scarcity of technically trained men and it is necessary that a comprehensive plan should be made for providing high technical education to Indian personnel.

Facilities for technological training and research.—These instruments of progress, apart from what has been improvised under the stress of war by the Board of Scientific and Industrial Research, lag far behind our quickened industrial tempo and all our all-embracing industrial planning. Planning for rapid industrialisation of India would be incomplete without providing for relative deficiency of facilities for technological training and research, since in the long run without locally available scientific and technological talent self-sufficiency of Indian economy, cannot be achieved and maintained on a basis of stability, able to withstand the stress and strain of world competition. Although so many technical institutions have been started, Government have not yet made it clear as to what facilities would be available from them to the industry.

Supply of skilled and unskilled labour.—There is no doubt that supply of skilled labour in India of the right type is not adequately available.

Engineering and Management Experience.—There appears to be the greatest need for engineering and mangement experience commonly called "know-how". This was to have been expected but it must be dealt with as a prerequisite for any rapid industrialisation of India; "know-how" means the intimate knowledge of the most practical means under any given condition, to produce in quantity at lowest cost and involves knowledge of methods of processing, tooling and designing of jigs and fixtures; the layout of equipment and the provision of labour-saving devices; the designing and setting up of proper controls of production and inventories; the organisation of supervisory personnel, and laying down lines of authority and responsibility.

This "know-how" is one of the most important single element requisite for successful industrialisation. It should be said here that this "know-how" is observed in a few private establishment and in the ordnance factories. "Know-how" also consists of being able to estimate markets and demand for products and thus to co-ordinate methods and facilities of manufacture with the demand for products.

Efficiency of Labour.—Much has been said and written about the lack of efficiency of Indian labour and it is not the intention of the Association to belittle the potential efficiency of Indian labour but the Association would like to point out that labour is not generally getting the necessary encouragement and opportunity from labour leaders and Trade Union Officials to make himself as efficient as he could possibly be. It is, therefore, very necessary that the economic question concerning labour should, as far as possible, be divested from its political colour in order that efficiency of labour may not suffer.

Indian labour in the Engineering industries is not as efficient as he should be and experience shows that the efficiency of labour has been going down. For instance, a worker at the Tata Works used to produce 16.248 tons in 1938-39 whereas in 1947-48 the output per employee was only 13.25 tons. Similarly in case of coal in 1939 the production per worker was 10.19 tons while in 1946 it was only 6.87. In case of cotton textile, production for a worker in 1939 was 702 yds. whereas in 1946 it was only 531 yds.

The decline in productivity of labour in almost all the industries is a noticeable feature of our economy and this fact alone has added proportionately to the cost of production. The industries are required to employ more capital and more labour in order to achieve the production which was possible with less investment few years ago.

Question 7.—(a) Before describing the present position of the small scale and cottage industries in the field of engineering, the Association would like to define the term "small scale" industries and "cottage" industries. There has been a great confusion introduced in treating the small scale and cottage industries together. As a general rule handicraft, home industries, village industries, cottage industries and small scale industries have been put together to come in the purview of small scale and cottage industries. Many people who have written on the subject of small industries have ignored the different aspects of the terms and it is found that some times they are used as synonyms. The Association wish to point out that clear differentiation should be made between small scale industry and cottage industry. The Indian Industrial Commission of 1916 defined cottage industry as an industry carried on in the home of the workers. In the case the scale of operation is small and there is little organisation so that they are, as a rule, capable of supplying only the local needs. The National Planning Committee have defined cottage industry as an industry in which a worker works with his own tools, in his own home, and with the aid of his family.

On the other hand a small scale industry is not at all a cottage industry. They may be regarded as small either for reasons of finance or on account of small number of workers or on account of little organisation, that is required to plan them. In the field of engineering industries a small scale industry has an important part to play in their economy. In order to be precise about the scope of the small scale industry the Association would define a small scale

industry as an industry where the capital invested is relatively speaking small and the organisation required is to pay personal supervision to the work carried on. A small scale industry has certain distinctive features. It involves, in general, a relatively small capital equipment and operates with only a few mechanical appliances. The unit of efficient organisation is small with a high degree of personal supervision. The processes of production entail a large proportion of labour cost and a high premium is placed on efficiency in skill and craftsmanship.

In the field of engineering industry, the country has got a large number of small scale industries like cutlery, certain processes in the field of electrical industries brass industry, manufacture of locks etc.

(b) The Association have no views to offer.

(2) The small scale industry and large scale industry in the field of engineering should not be and cannot be competitive. They should be complementary. The Association find by experience that at present in India a factory is required to manufacture all the component and parts in order to have good finished products. This process of manufacture can easily be splitted up in order that the production may be efficient. For instance, in western countries electrical accessories industry is essentially an assembling industry. On the other hand in India a factory manufacturing electrical accessories has to manufacture all the parts. This leads to waste in the process of manufacture and raises the cost of production. The Government of India have appointed last year a Cottage Industry Board but the Association are not aware of its achievements so far. The Association feel that in the field of engineering industries a Small Scale Industries Board should be appointed in order to investigate the present position of these industries and find out what part they can effectively play in order to help large scale industries of the country.

Question 8.—The Association believe that small scale industries have a very important part to play in the economic development of the country both in the short term and in the long term. It is often considered that simultaneous development of small scale and large scale industries is either inconceivable or that the development of one would mean the ruin of the other. The two types of industrial organisations are considered incompetitive and it is thought that the development of each could only be at the expense of the other. But neither theory nor practice has proved the mutually exclusive nature of each other. The view of the Association is that two types of organisations may be dovetailed with great advantage to both of them. The cutlery industry of France and the toy industry of Nuremberg are examples of such successful dovetailing. There can be concurrent and parallel development of the two types of industries without in the least impairing the soundness of the economic organisation of the country. It is a matter of great interest to observe that small organisations are developing as subsidiary to large scale factories.

SECTION A (ii).

Question 9.—The Association have no comments to offer.

(b) It is not possible for the Association to enumerate the small scale industries which should be developed as supplementary to large scale industry. But instances can be given of industries like screws, moulding powder, manufacture of fountain pen parts, electro plating, manufacture of cutlery etc., the manufacture of tools, dyes, jigs, and fixtures, machine parts and components.

(c) The Association have no comments to offer.

Question 10.—The Association have no comments to offer.

Question 11.—Generally speaking, protection to large scale industries has greatly helped the development of small scale industries by making raw materials available for the small scale industries.

Question 12.—(a) The small scale industries suffer to a considerable extent from the non-availability of adequate supply of raw materials. It is, therefore,

necessary that an Association of small scale manufacturers should be formed in order that bulk supply of raw materials may be made available to them for distribution to these industries. In the field of engineering industries, raw material would be iron and steel and a few other items and coal and coke. At important centres of concentration of these industries depots should be opened in order to stock raw materials for distribution to these industries.

(b) The requirements of small scale industries in regard to the supply of technical skill is the technical assistance in a small way to serve their day to day problems such as (a) what kind of lubrication would give satisfactory results; (b) how to increase the efficiency of boiler equipment; (c) how to have periodical examination of their limited machinery; (d) to see that they are not out of order and otherwise require attention; (e) how to avoid corrosion in their stills when they are dealing with chemicals; (f) how to get cheap and reliable analyses made of their wares when complaints arise; (g) what kind of blend or mixture they should use for their castings and what kind of steel they would require and what temper and time etc., they should allow for tempering when occasion arises, for them to make repairs or replace machinery parts made in their own small foundries and workshops etc. Such assistance can best be rendered by a Government Industrial Engineer located at important industrial cities like Calcutta, Bombay, Cawnpore, Madras, Delhi, etc., who would charge a small fee for giving his advice to these small industries, which cannot afford to engage technical assistance and research workers for their needs.

(c) The technique of manufacture employed by the small scale industries are not defective but it is inadequate and inefficient. It is, therefore, considered necessary that if Government Industrial Engineers on the line of recommendation made are appointed this difficulty would also go.

(d) The structure and organisation of the small scale industries is rather defective. In the field of many small scale industries there is a tendency to multiply inconveniently in order to reap temporary advantages with the result that production becomes irrationalised and every one of them suffers in the long run. The problems of structure involve three considerations, namely, site, size, and scope. In other words, location of these industries, their size and the types of integration are the problems which have a great bearing on their productive activity. On the other hand organisation refers to the entire field of the industry, like industrial combinations which reduce competition and determine prices.

The Association feel that rationalisation is necessary in the field of these industries in order to improve their efficiency. So far as the organisation is concerned it is very necessary that cooperative system should be introduced so that marketing facilities, production technique etc., might improve.

(e) In India at the present moment both the large scale and small scale industries suffer from inadequate finance and the Association have no hope that any temporary palliative would be of any major assistance to these industries. Industrial finance is a difficult matter and it is necessary that consolidated efforts should be made to create capital in the country and create reasonable condition for its free employment in the industries. The Association suggest that the activities of the Industrial Finance Corporation in the provinces should be increased in order to help the small scale industries in the solution of their financial difficulties.

(f) The difficulties of finding market for the small scale industries are also there and it is suggested that the large scale industries which consume their products should help them by purchasing their products through some sort of an Association so that these small scale industries are not put to difficulty. Where the small scale industry exists as an independent unit and makes consumers articles, the Industries Directorate of the Provincial Government should help them in the sale of their products.

Question 13.—The Association have no comments to offer.

Section B.

Policy of Discriminating Protection and its application since 1923.

Question 14.—The Association are not satisfied that the policy recommended by the Commission was fully implemented by the Government. The Association first of all would like to point out the defects in the policy recommended by the Fiscal Commission and the criteria which they wanted an industry to satisfy. The Association find that the policy of discrimination has been exercised by the Government through the appointment of *ad hoc* Tariff Boards. But the difficulties which have faced different industries in placing their cases have been great and getting protection has been most dilatory. The subsidiary recommendations which the Commission recommended related to the deletion of the proviso to Section 20 of the Sea Customs Act in regard to the levy of customs duty on goods belonging to Government. Another important recommendation which the Commission made was in connection with the difficulties in the shape of shipping rebates or unfair advantages like dumping, depreciated exchanges, bounty fed exchanges from abroad. The Government of India did nothing of the kind and the difficulties of the Indian industries continued. The third recommendation of the Fiscal Commission was that industrial development be permitted by giving a more industrial bias to primary education and providing opportunities for training of apprentices and organisations in increasing the mobility of labour. The shortage of technical labour in the country continues as before and the Government did not follow any concerted policy for opening technical institutions. India has still to depend, in the more skilled branches of the industry, on imported labour.

It had been urged before the Commission that the system on which railway rates were fixed was injurious to the interest of industries. The Commission fully realised the significance of the complaint but the Government did not take the necessary action.

Question 15.—There have been many defects in the working of the policy as recommended by the Fiscal Commission. Many a time Tariff Board did not recommend adequate protection to an Indian Industry. Sometimes Government of India outright rejected the claim of an Industry for protection. The arbitrary rejection of the Tariff Board findings by the Government has been the cause of great bitterness among the Indian commercial circle. The case of the Indian Glass Industry is one which illustrates the arbitrary rejection of the recommendations of the Board by the Government. In 1927 when an application for protection was made by the Glass Industry the Government of India had suggested that the industry could not be said to enjoy any natural advantage so long as it was dependent on imported soda ash. But the second Tariff Board adopted a more liberal attitude in interpreting the condtions laid down by the Fiscal Commission and held that even if the industry was using imported soda ash the claim for protection could not be rejected unless it was found on balance that the industry did not possess sufficient natural advantages. The Board submitted its report in 1922 but its publication was delayed for about 2 years and besides the Government of India rejected the recommendation of the Board outright. Further imperial preference was introduced within protection. The Tariff Board had recommended that no general system of imperial preference should be introduced but that the question of adopting a policy of preferential duties on a limited number of commodities be referred to the Indian legislature after preliminary representation in several cases by the Tariff Board; that if the above policy be adopted its application be governed by the following principles :—

(i) that no preference be granted on any article without the approval of the legislature ;

(ii) that no preference be given in any way so as to diminish the protection required by Indian Industries.

(iii) that preferences do not involve on balance any appreciable economic loss to India ; that no preference which it may be found possible to give to the United Kingdom be granted as a free gift ; and that in the case of other parts of the empire preference be granted only by agreement mutually advantageous.

In spite of the mounting hostilities of the Indian public opinion against any form of imperial preference the Government of India has gradually led the country into it. The system of preferential duties in favour of British manufactures was first introduced by the Steel Industry Protection Act of 1927. The preferential duties on iron and steel were further altered by an agreement, supplementary to the Indo-British Trade Agreement of 1932.

There are many anomalies which the working of this policy reveals and it is difficult to present a precise picture of all the defects.

Question 16.—The Association do not agree that the conditions recommended by the Fiscal Commission are necessary to be fulfilled in order to give protection to an industry. The outlines of the policy recommended by the Commission was that the scheme of discriminating protection should be worked out with the assistance of a permanent Tariff Board so that before the industry could be granted fiscal protection it should establish its claim to the satisfaction of the Board. The Board after detailed investigation into the economic position of the industry was to recommend whether protection should be extended and if so as what rate and for what period. The conditions laid down by the Fiscal Commission were as follows :—

(i) it must be one possessing natural advantages such as an abundant supply of raw material, cheap power, sufficient supply of labour and a large home market;

(ii) it must also be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country;

(iii) finally it must be proved that the industry will eventually be able to face world competition without protection.

The Association quite agree that the policy of protection should be applied with discrimination as indiscriminate protection to all Indian industries would lead to economic waste. There should be a reasonable chance for the industries claiming protection to be able to face world competition without protection in the near future except where the industry must be developed in the national interest. It is for these reasons that protection has essentially to be temporary and in so far as this condition is concerned the Association quite agree with the recommendation of the Fiscal Commission. However, the tests laid down by the Fiscal Commission as conditions precedent to be fulfilled by an industry were rigid. The Association find that the working of the protection policy since 1922 has been such that on account of the rigidity of the conditions laid down by the Fiscal Commission Indian industries have not been able to take full advantage of protection. For an industrially backward country like India it was undesirable to put such rigid conditions and thereby fetter the discretion of the Tariff Board, as it is not always necessary that an industry seeking protection should possess an abundant supply of raw materials or large home market etc. The structure, for instance, of the Lancashire Cotton industry indicates beyond any shadow of doubt that an efficient industry can be organised without an abundant supply of raw materials of the availability of a large home market. It is surprising to note how cotton mills in Lancashire get their raw cotton from America and supply to the Indian market and still have developed under the aegis of a strong protectionist policy. If such rigid conditions had been imposed by the industrially advanced countries of the world like Britain, Germany and Japan etc., most of their organised industries would not have come out of their swadling cloth.

Question 17.—Supplementary measures recommended by the Fiscal Commission related to :—

(i) Industrial bias in primary education with a view to creating a mechanically minded industrial class.

(ii) Training of apprentices for more skilled work.

(iii) Increased mobility of labour by giving better methods of education.

(iv) Revision of railway rates policy.

(v) Lowering of coastal shipping rates.

(vi) Shipping rebates.

(vii) Measures against dumping and certain other cognate matters.

So far as the general recommendations in regard to the primary education and training of apprentices are concerned these are matters where it is very difficult to pronounce any judgement. There is, however, no doubt that the recommendation of the Fiscal Commission in this regard was very well conceived. However, much had to depend upon the action the Government had to take in implementing this policy. Very few engineering colleges and technical institutions which have come up here and there since then have no doubt met a great demand of the country but it cannot be said that they have come into being as a result of any concerted policy followed by the Government.

The railway rates policy as has been operative in the country has not at all been helpful to the development of the industry. The Fiscal Commission endorsed the following recommendations of the Indian Industrial Commission in very strong terms.

(i) The governing principle which we think should be followed in railway rating so far as it affects industries is that internal traffic should be rated as nearly as possible on an equality with traffic of the same class over similar distances to and from the ports.

(ii) That the railway should accept the principle which is followed in some other parts of the world that a consignment travelling over more than one line should be charged a single sum based on the total distance.

(iii) We recognise the danger of a policy of individual concessions to industries and of treating railway rates as an indirect method of subsidy by the State. But we think within the limitations laid down by the Industrial Commission it is not unreasonable that a special rate should be granted for a term of years to new industries and even to others if they can make out a proper case for special treatment.

The recommendations of the Fiscal Commission in this regard were very halting and beyond the endorsement of a general recommendation of the Industrial Commission, they did not go a step further. The difficulties which the Indian Industries have had to face since then have been great and the railway policy of the Government has not at all been helpful to their development.

With regard to the shipping rates on the coast the Commission had overwhelming evidence before them that the rates had been quoted showing a great disparity between the charges of goods shipped from one Indian port to another and those on goods conveyed between Indian and foreign countries. In this regard to, the Fiscal Commission did not make any strong recommendation and simply endorsed the idea of the development of an Indian mercantile marine. They simply drew attention to the system of shipping rebates and they simply expressed the feeling that the Government of India should make a thorough equiry into the desirability of initiating similar legislation in India prohibiting the maintenance of a shippng monopoly.

With regard to dumping, the Fiscal Commission did not think it expedient to recommend the enactment of a measure against dumping such as that in force in Canada. They recommended that the Government should consider the desirability of introducing a measure more on the lines of that passed in the United States whereby power should be taken to impose tariff duty when after enquiries of the Tariff Board it had been established that dumping was taking place and that it was injuring or was likely to injure an Indian industry.

Question 18.—The classification mentioned above affected the working of the policy of discriminating protection between the years 1923 and 1939 to a considerable degree inasmuch as because of the restrictions placed on the discretion of the Tariff Board many of the industries could not receive protection. Between the years 1924 and 1939 about 50 cases were referred to the Board for investigation and out of these in the year 1939 only 8 industries were on the protected list. The period between 1923 and 1929 was one when this policy was vigorously followed as it was a new thing. The first industry to be examined by the Tariff Board was the iron and steel industry and it was given the necessary

protection. Similarly the cotton industry was also protected. The period between 1930 and 1934 was a period of depression when the revenues of the Government were falling and, therefore, Government hesitated to send up cases for protection except the outstanding example of the sugar industry. The period between 1934 and 1939 was one when only old cases were sent up for reconsideration for continuance of protection. No new industries were added to the protected list as a result of these qualifications.

The well-being of the community is a very confusing slogan. When a basic industry gets established in a country, the benefits derived from it in the larger interest of the nation are immense and cannot easily be estimated.

Question 19.—The Association welcome these deviations from the original policy as laid down in the Indian Fiscal Commission's report of 1922. Many of the industries, specially in the field of engineering were started during the war under circumstances of considerable difficulty and some of these industries were very important for the nation both in peace time as well as in war and, therefore, it was necessary that these industries should have been given the chance to find whether they could exist to the benefit of the nation even in peace time after the war had ended. It must be remembered that it is not so much the token of friendship exhibited by these industries which was so much responsible for the Government care about them. Industries like small tools, machine tools, wood screws, beltings, electric motors, textile machinery, abrasives, etc., are such as are required by the nation at all times. It was, therefore, very necessary that the Government of India slackened the rigorous conditions that were imposed by the Fiscal Commission. The conditions which the industries have now to fulfil are quite suitable and easy to be fulfilled. There is no doubt that no industry should be allowed to be supported by public funds unless it shows signs of being run on successfully without protection or State assistance in the future. The industry after a certain period of time should be able to carry on successfully without protection or State assistance.

Question 20.—The policy of 1945 in the opinion of the Association is being fully implemented. The only defect which the Association find in the working of this policy is that the Ministry of Commerce have reserved to themselves the right of forwarding a particular case to the Tariff Board for examination and enquiry. This means that an industry whose case is not forwarded by the Ministry of Commerce is not at all able to reach the Tariff Board. The Association feel that every industry should have the chance of going up to the Tariff Board and this duplication of effort at the Ministry of Commerce should be avoided.

Section C.

Review of the effects of past tariff policy.

Questions 21 & 22.—Of the industries mentioned in question 22 of the Engineering Association is interested only in Iron and Steel. It may be pointed out that individual replies have already been submitted by the firms concerned like the Tata Iron and Steel Co., Ltd., The Steel Corporation of Bengal, the Indian Iron and Steel Co., and the Mysore and Steel Works. From their replies the Fiscal Commission would get an idea about the development that has taken place in each of these units. The Association's replies therefore, should be regarded as only general. The Association would point out that the effect of protection on the iron and steel industry of the country has been one of constant development of the industry. It would be recalled that in 1922-23 the Tata Iron and Steel Co., were the only manufacturers of steel in the country; the Mysore Works were just beginning to come into being. The Steel Corporation of Bengal came into being in 1937 as a direct result of the policy of protection granted by the Government. Moreover, the Tata Works also considerably expanded since the Fiscal Commission first reported. Although there has been no increase in the capital invested, the gross block of Tatas which stood at Rs. 20.41 crores in 1923-24 increased to Rs. 26.69 crores in 1938-39 and to Rs. 39.83 crores in 1948-49. This expansion was achieved by prudent financial management and adoption of a sound policy of ploughing back the profits in the industry. The Steel Corporation of Bengal came into being in 1937, the subscribed capital

of the company being Rs. 4,48,86,725. The gross block of the company amounts to Rs. 4,45,89,281. In 1924 when the steel industry was first examined by the Tariff Board the production of steel was only 1,63,000 tons. The development after the grant of protection has been quite commendable. This would be revealed by the fact that the production capacity of Tatas which in 1923-24 was only 2,00,000 tons increased to 7,50,000 tons in 1938-39 and to 8,50,000 tons in 1948-49. Similarly, the actual output of Tatas also increased which would be evidenced from the following figures :—

Years	Pig Iron Tons	Steel Ingots tons	Finished steel Tons
1923-24	4,43,000	2,35,000	1,63,000
1938-39	10,20,000	9,47,000	7,01,000
1948-49	9,17,000	9,04,000	6,61,000

The production of pig iron and ferro alloys for the whole country since 1939 was as follows :—

Years	*Tons*
1939	17,58,654
1940	20,12,611
1941	20,42,164
1942	18,50,938
1943	17,59,583
1944	14,43,200
1945	14,05,042
1946	14,38,054
1947	14,35,396

In the above quantities the following figures relate to ferro alloys :—

Years	*Tons*
1939	1,613
1940	18,199
1941	31,850
1942	21,197
1943	10,711
1944	6,189
1945	8,694
1946	15,611
1947	18,121

The production of finished steel increases as follows :—

Years	*Tons*
1939	8,42,905
1940	1,33,784
1941	11,37,650
1942	10,45,877
1943	11,49,308
1944	10,13,203
1945	9,96,678
1946	8,90,383
1947	8,93,296

The production of steel ingots and metal for castings has also increased simultaneously. It may be noted that the steel industry has expanded considerably as a result of protective policy followed by the Government. Not only that it has helped the development of a large number of engineering industries, but it has given the country an opportunity to build up a strong nucleus for highly skilled labour. In the Tata Steel Works alone in 1923-24 there were

30,000 workers employed which increased to 31,000 in 1938-39. The employment statistics for the country as a whole are given below :—

	No. of Workers
1939	54,177
1940	56,729
1941	59,245
1942	65,672
1943	67,357
1944	68,801
1945	63,932
1946	65,400

This leaves out of consideration the number of workers engaged in the ore mines and the collieries owned by the different Steel Works.

The expansion of the industry as described above will indicate that the policy of tariff protection has considerably helped the industrial development of the country. But for the protective policy followed by the Government the Steel Industry would have presented an entirely different picture to-day.

Question 23.—(a) (i) *Size of Units* :—

The Steel Industry in India has certain important features in regard to its size. The Tata Iron and Steel Co. are considered to be the largest single unit in the world outside the United States of America. It is a fully integrated unit inasmuch as the Company owns its own mines and quarries supplying iron ore, limestone, manganese ore and also coal mines supplying about 50 per cent. of its coal requirements. Similarly the Steel Corporation of Bengal have their own coal mines and other mines. The Company has got its own coke ovens at Hirapur and Kulti, the capacity of which is about 63,000 tons per month. The SCOB obtain their pig iron from the Indian Iron and Steel Co. and commenced production in 1939. The third main producer of iron and steel *viz.*, the Mysore Iron and Steel Works began their operation in January 1923. The original plant of the firm consisted of a blast furnace and a Wood Distillation plant. Subsequent additions of auxiliary plants have taken place such as the pipe foundry and machine shops. A steel plant with a rolling mill was added in 1934 thus completing the mechanical equipment of the concern within the course of a decade. Their blast furnace is of modern design with productive capacity of 28,000 tons per annum. They also set up a steel plant in order to raise the output of pig iron to the rated capacity so as to reduce over-head and other standing charges. It is understood that the maximum capacity of the rolling mills is 28,000 tons of light structurals and bars. There is also a rod and strip mill with a capacity of 5,000 tons of hoops and 5,000 tons of rods. The Association understand that the Steel Corporation of Bengal have recently obtained a loan from the Government of India in order to extend their plant for increasing their capacity.

From the above it would be seen that the Iron and Steel Industry in India has been designed in such a way that its growth and development are not retarded owing to future expansion plans. The following factors which are mainly responsible for the growth and development of the size of the units may be mentioned :—

(1) The original plan of the projects has provided for gradual and continuous development of their size.

(2) The location of the Steel Industry is very favourable.

(3) The policy of protection adopted by the Government.

2. *Location.*—The basic Indian iron and steel industry is located principally in the Provinces of Bihar, West Bengal and Mysore State. The Iron and Steel Industry is a highly localised industry and affords good example of the marked advantages of a suitable location. A heavy industry like iron and steel is attracted to the place where iron ore and coal the two most important raw materials are situated. The raw materials required for the iron and steel

industry are iron ore, coal and water, limestone, fluxes and dolomite etc. Iron ores are found in abundance in Bihar, Orissa, Mysore and Goa. But some of the richest iron ore deposits of the world exist in the Iron Belt which comprises the Singhbhum area in which the Tata Works are located. In respect of coal the Indian Steel Industry enjoys exceptional advantages because it is available within a short distance from the iron ore deposits. Ample deposits of limestone and dolomite are also available in the neighbourhood. In regard to the Mysore Works, the location of the industry at Bhadravati is an interesting instance of transport orientation. The two important raw materials are iron ore and wood, the latter being necessitated by charcoal blast furnaces; both of them are localised materials. For each ton of pig iron produced 4.50 tons of wood and .25 tons of limestone are required; thus they are highly weight losing materials. All the raw materials are available within a radius of 30 miles and hence the industry is most advantageously located.

The Wood Distillation Plant at Bhadravati has to draw its supply of wood over a distance of 30 miles from the forests. The ratio is one ton of charcoal to every 4 tons of wood. Wood was transported to the Distillation Plant on account of the recovery of bye-products. Since the cessation of the recovery of bye-products the cast iron mills are installed in the forest area for the distillation of wood. This is an interesting example of a change of location consequent upon reduction in the value of products manufactured in relation to the locational weight transported.

3. *Development of combinations, vertical and horizontal.*—The Association are not aware of any vertical combination in the case of the Indian Iron and Steel industry but in so far as horizontal combination is concerned it may be mentioned that there is a working arrangement between the Tata Iron and Steel Co. and the SCOB in regard to the sale of common products since 1939. Similarly a pooling arrangement has also been entered into by Tatas with the Indian Iron and Steel Co. for pig iron.

4. *Development of Ancillary industries.*—The establishment of steel industry in India has considerably stimulated the growth of almost all the Engineering Industries in the country. Apart from the concentration of a large number of important industries like tinplate, wire and wire-nails, oxygen gas, castings, locomotives etc. near Jamshedpur all over the country the development of Engineering Industries has been facilitated largely because of the availability of raw materials in the country.

5. *Any other aspect.*—There is a belief current in certain circles that protection to the steel industry imposed an undue burden on the economy of the country. How ill-founded and mistaken the belief is will be apparent from a perusal of the note enclosed along with the reply submitted by Tata Iron and Steel Co., Ltd., to the Fiscal Commission (Appendix I) explaining the burden of protection to the consumers in the shape of protective import duties and the manifold benefits derived by the country from such protection. The benefits completely outweigh the so-called burden of protection. The Tata Iron and Steel Co. further pointed out :

"The establishment of the Steel Industry on its present basis and the constant additions and extensions made to the plant to increase the total steel producing capacity have been greatly assisted by the protection granted to the industry since 1924.

"The form or manner in which the protection was given took the nature of bounties (for three years only) and protective import duties. It may be generally stated that the form of protection adopted was conducive to the development of engineering and ancillary industries and railways. Thus the comparatively low duty on structurals levied in 1924 was intended to keep the cost of steel to the consuming industries as low as possible. The bounties granted on rails and fish plates in the same year by way of additional assistance, as also the supplementary protection granted in the following year in the form of bounties, were intended to reduce the cost of steel to the consuming industries and to the railways. The introduction of the principle of differential duties since 1927 with preferential duties on imports from the U.K. which

was the precursor of the principle of Imperial Preference subsequently embodied in the Ottawa Pact, had the same result of minimising the cost of protection to consumers of tested steel, such as railways, engineering industries, machinery-manufactures, public utility undertakings etc.

"In 1934, the protective duties on structurals and plates from the U.K., which are essential raw materials for engineering and public utility undertakings, and rails, fish plates and sleepers from all sources, required by the railways, were made equivalent to the ordinary revenue duties plus the proportionate countervailing excise duty on ingots. Billets which are used by the re-rollers were exempted from all duties except the countervailing excise duty on ingots.

"Thus the form and manner in which protection has been given to the main steel industry has been such as to afford considerable assistance to the ancillary and engineering industries as also the railways. None of the other features in the structure and organisation of the industry mentioned in (a) above has had anything to do with the form or manner in which protection was given; nor are any of the above-mentioned features in the structure and organisation of the industry prejudicial or harmful to the interests of the general economy of the country.

"There is, however, one aspect of the form and manner of protection to which we would like to make a reference here. The periods for which the different Tariff Boards recommended protection ranged from 3 to 7 years. The scale of protection required was determined after considering the expected level of C. I. F. prices of foreign materials in India during the period for which protection was recommended and the fair selling prices for the products of the indigenous industry to give it a reasonable margin of profit. In the steel industry it has invariably happened that the estimates of C. I. F. prices and fair selling prices made by each of the Tariff Boards were upset due to developments which were not foreseen at the time of the Tariff Board's enquiries. Thus, for example, while the scale of duties levied in 1924 was intended to remain in force for a period of three years it proved inadequate on account of further depreciation of continental currencies and appreciation of the rupee in terms of sterling. Within six months of the grant of protection, therefore, the Tariff Board had to be asked to make a fresh enquiry to recommend additional protection.

"Again, while the protection granted in 1927 was intended to remain in force for a period of seven years, an increase in the rate of duty on galvanised sheets from Rs. 30 to Rs. 67 per ton had to be sanctioned in 1930 on account of a reduction in the imports prices of galvanised sheets below those estimated by the Tariff Board. In the same year, on account of the lower off-take of rails by the railways, which caused a considerable increase in the works costs and a reduction in the profits, the fair selling price of rails had to be increased from Rs. 110 to Rs. 130 per ton.

"The Tariff Board could not have anticipated in the year 1927 the world trade depression which set in the year 1929 and lasted upto 1933, causing a world wide reduction in the output, consumption and prices of steel. Again the major strike which took place in 1928 in the Steel Company's Works at Jamshedpur considerably reduced production, increased the works costs and caused considerable reduction in profits, thereby retarding the Company's development plants.

"The time lag which invariably occurred between the occurrence of a disturbing factor and the sanction of Government of suitable remedial measures, on the recommendations of Tariff Boards appointed for the purpose, caused needless loss to the industry and precluded it from deriving the full benefit of protection. Much swifter action on the part of Government is necessary to see that protection granted to an industry does not at any stage prove inadequate.

"We might also mention an instance in the history of protection to the steel industry, when Government, for reasons known to itself saw fit to curtail the measure of protection below what was recommended by the Tariff Board,

after a detailed enquiry. In June 1925 the Tariff Board had recommended a bounty at the rate of Rs. 18 per ton on the weight of ingots produced for a period of 18 months, subject to a maximum of Rs. 90 lakhs. Government, however, sanctioned a bounty at the reduced rate of Rs. 12 per ton for a period of 18 months, subject to a maximum of Rs. 60 lakhs.

"On account of these and other factors, the protection or assistance that the industry actually enjoyed during the period 1924—33, was far below that recommended by the different Tariff Boards. As a consequence the Company was not in a position to pay any dividend on ordinary and deferred shares for the entire period from April 1922 to March 1935, except for a dividend of Re. 1 per ordinary share paid for the year 1926-27. For the period April 1922 to March 1925 and, again, from April 1928 to March 1930 even the second preference shareholders had to go without any dividend.

"The Steel Company was, however, able to a considerable extent to make up for the past losses after 1933 by which time the world depression had passed and definite recovery had set in in the world prices of steel. The formation of the international steel cartel on the Continent as also the armament manufacturing programmes adopted by the European countries since 1937, further contributed to the general prosperity of the industry the world over, in which the steel industry in India also shared."

Question 24.—In view of our replies to question 23b the question does not arise.

Question 25.—The Steel Industry in India has all along followed the policy of progressive mechanization and the introduction of technical improvements with a view to reducing cost of production. This would be borne out by the facts given in the memoranda submitted by individual companies. The following, however, may be noted :

(i) Installation of coal mixing bunkers in June, 1939 which reduces the cost of handling coking coal, has facilitated blending and enabled control of the coke plant at Tata Works.

(ii) Installation of coke breeze fired boilers in 1944-45 at Tata Works as a measure of fuel economy.

(iii) Installation of normalising plant in the plate mill at Tata Works in 1935-36.

(iv) Introduction of duplex plant at the Steel Corporation of Bengal.

(v) Modernisation of the coke oven by installing a new set of batteries and ancillary plant at the Steel Corporation of Bengal.

(vi) Establishment of a ferro-silicon plant at the Mysore Works.

(vii) Installation of a rod and strip mill at Mysore.

(viii) Proposal for the establishment of an electric pig iron furnace at Mysore Works.

(ix) Recovery of bye-products at Jamshedpur and Mysore.

The above illustrations would indicate that the Steel Industry under the shelter of protection has introduced progressive mechanisation and other technical improvements as economy measures. Along with the production of pig iron and steel, the consumption of indigenous raw materials like iron ore, dolomite, etc., has considerably increased.

Question 26.—(a) *Technical Personnel required by the industry.*—The protection granted to the industry has undoubtedly led to the supply of technical personnel for the industry. In the initial stages the industry had to depend upon technical personnel imported from abroad. It may be pointed out that the Tata Iron & Steel Co., Ltd., set up a Technical Institute at Jamshedpur in 1921 for the training of Indians for employment in higher grade posts. Ever since its start the Institute has turned out a regular team of trained Engineers to meet the requirements of the industry.

(b) & (c) *Skilled and semi-skilled labour.*—The establishment and progressive development of the Steel Industry under protection has led to the creation of a skilled and semi-skilled labour force. The Tata Technical Institute

also conducts an apprenticeship course for semi-skilled employees and they are also running a Technical night school for the employees.

(d) *Stabilised industrial labour force.*—Labour force at Jamshedpur, Hirapur and Kutli and Mysore is stabilised because the industry has offered them necessary facilities like labour quarters, security of employment, liberal terms of service, etc. The labour force employed by the Steel Industry may be regarded as stabilised.

Question 27.—Since the main work in this field has been done by the Tata Iron & Steel Co., we have to only describe the facilities which have been provided by them. They maintain the Tata Control and Research Laboratories where researches are being carried on on a large number of subjects. An illustration of the fruits of this research will be found in the fact that it has been possible to manufacture basic refractories from low grade chrome ore and nozzles and stoppers from clay etc. The Association would also draw the attention of the Fiscal Commission to the Memorandum submitted by Tata Iron and Steel Co., Ltd., where detailed account has been given regarding the research work carried on by their organization.

Question 28.—The Association have no comments to offer.

Question 29.—In so far as the effects of the tariff policy on the import and export trade of the iron and steel industry are concerned, the Association would refer the Fiscal Commission to the reply sent on this point by the Tata Iron & Steel Co., Ltd. Beyond this the Association have no views to offer.

Question 30.—The Association have no comments to offer.

Section D.

Factors in the formulation of a new Fiscal Policy—Import Control Policy.

Question 31.—In order to get an idea about the relative importance of the main changes in the pattern of our foreign trade during the war and post-war periods, it is necessary to state a few words about the pre-war position. India has been a supplier of vital raw materials to the world on a considerable scale and a bulk purchaser of manufactured articles for foreign countries. After the Industrial Revolution in Great Britain, India was made a market for British manufactures and plantation of supply of raw materials and food-stuffs to feed British factories and population. But this position was changed after World War I when in spite of so many drawbacks, modern factories began to be installed. This progress of industrialisation gained strength and began to assert itself not only in India but also to a certain extent in foreign markets with the result that our manufactures began to appear in the export list. In the case of jute in particular India had a monopoly. This tendency once began gathered vigour and speed with the march of time and is steadily continuing right up to the present day. The following table gives a clear picture about the percentage of manufactured goods to the total trade both in exports and imports :—

	Import	Export
1920-21	84%	36%
1924-25	76%	22%
1928-29	73%	27%
1932-33	73%	29%
1936-37	75%	26%
1939-40	56%	38%

It will be seen from the above table that in 1920-21 manufactured articles constituted as high as 84 per cent. of our total imports and 36 per cent. of our exports. But the imports of manufactured goods dwindled to 56 per cent. and that of export increased to 38 per cent. in 1939-40. The change brought about in the increase of export of manufactured goods is the result of our increasing industrialisation.

In so far as the engineering goods are concerned, we have not been an exporter except in case of pig iron and iron ore. The manufactured articles

which formed 84 per cent. of the total value of our imports in 1920-21 declined to 56 per cent. in 1939-40. The import of industrial raw materials relatively increased from 5 per cent. in 1920-21 to 22 per cent. in 1939-40. The import of food stuffs increased from 11 per cent. in 1920-21 to 22 per cent. in 1939-40. On the export side our export of manufactured goods declined relatively from 36 per cent. in 1920-21 to 26 per cent. in 1936-37 and the export of industrial raw materials increased from 35 per cent. to 55 per cent.

This would indicate that Indian industries were developed mainly from the angle of producing those goods which were internally required and not for processing raw materials which are exported.

But the period of War II brought about a considerable change in the pattern of our foreign trade. The period between 1939 and 1945 was full of abnormal difficulties and the Government of India had to control imports for : (1) Conservation of foreign exchange resources, (2) for meeting the war demand and (3) for utilising the available shipping space to the best advantage. The figures of exports from 1941-42 show a marked drop in the export of industrial raw materials to 28 per cent. and an equally marked increase in the export of manufactures to the extent of 47 per cent. During the war period on account of Government control for reasons of war, the foreign trade was hedged in and we did not have appreciable imports of manufactured articles which were either not required urgently or which could be procured locally. The result of this was that many new engineering industries developed in the country. An example of this may be found in the case of machine tools, small tools, various electrical industries, new types of special steels, screws, antimony, non-ferrous metal industry etc., etc.

After the termination of the war in 1945, the shipping difficulty largely disappeared and the supply position in the Western countries which were our main exporters had considerably eased. In 1946 Government of India considered that import control could be sufficiently liberalised to meet the pent up demand in the country. The system of Open General Licence was extended to a large number of commodities imported from all sources. The total value of licences issued during the 12 months ending 12th March, 1947, was about a thousand crore of rupees. It might be that the licences issued were not fully utilised but the result of this policy was to impose heavy burden on India's foreign exchange resources. In this connection reference may be made to the famous Hydari Mission which went to England and America and negotiated for the import of a large number of consumer goods. The country was flooded with imports of all sorts of commodities. In 1947 the entire position was reviewed and the Government decided to limit imports to the current earnings of exports plus the transfers from the sterling balances. The position of restricted imports continued till July, 1948. During this period a large number of industrial raw materials and plant and machinery were imported. But again in July 1948, the Government reviewed their import policy in order to import a large number of articles to fight the inflation. This again resulted in the Indian Market being flooded with imports and the result was ruinous both to the Government and the public. The country paid for the huge imports through her nose and in May 1949, came a time when the Government of India were faced with an economic crisis without parallel in our economic history. Import control was again tightened and the position so much worsened in September, 1949, that India had to devalue her currency along with the sterling.

From the above narration of the pattern of our foreign trade during the war and post-war periods it would be clear that in the first period the importance of the change in the pattern of our foreign trade lay in the development of new industries in the country specially in the field of engineering and chemicals and in the second period as a result of unstabilised Government import policy industrialisation got a severe shock.

Question 32.—The effect of Government control on our import and export trade has been dealt with in our replies to question 31 above. In short the pattern of our foreign trade has considerably changed as a result of these measures except for periods of great abnormality when Government acted on their own without consulting the interests of trade and industry in liberalising or tightening all controls. The import control policy has resulted in the import

of a large number of capital equipment and industrial raw materials. As we have pointed out above, the import policy of the Government has resulted in our receiving a large number of consumer goods in the shipping periods of 1946 and in July-December, 1948 and till June 1949. These were the two darkest periods in the economic history of post-war India when the country was flooded with cheap American and English goods which disorganised a large number of Engineering Industries in the country.

In so far as the effect of the control on export is concerned, during the war it served a very good purpose of conserving the local supplies for civilian and military needs. The development of export trade has been considerably hampered as a result of these controls and it is heartening to find that the Government of India has decided towards relaxation of export control in order to earn foreign exchange. The Government of India had recently appointed an Export Promotion Committee, the report of which has already been submitted to the Government and the Government have already taken action on a large number of their recommendations. The Association feel that our export trade is likely to develop as a result of the measures announced recently by Government.

So far as the effect of the Government control on Engineering Industries is concerned, the Association would record their appreciation that as a result of scarce conditions created by the stoppage of imports a large number of Engineering Industries had come into being during the war. In the earlier section of this memorandum, the Association have pointed out the development and growth of various Engineering Industries which have developed during the war. The example of these would be found in the development of Alloy and Tool Steel Industries, small Tools and Machine Tools, Wood Screws, Expanded Metals, non-ferrous Metal Industries, a large number of Mechanical Engineering Industries like Diesel Engines etc. Electrical Industries particularly Electric Motors, Transformers and Switch Gear etc. The growth of these Engineering Industries was checked as they were faced with a serious competition from cheap foreign products in the last two years.

Question 33.—The fundamental premises on which the recommendations of the Indian Fiscal Commission for a policy of discriminate protection were based were :—

(1) That an industry must be possessing natural advantages such as an abundant supply of raw materials, cheap power, sufficient supply of labour and a large home market.

(2) The industry must also be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as desirable in the interest of the country ; and

(3) Finally, it must be proved that the industry will eventually be able to face world competition without protection.

In so far as the change in the pattern of our export trade is concerned the interest of the nation requires that we must export manufactured commodities in order to earn foreign exchange resources to pay for our capital equipment and industrial raw materials which we are not able to manufacture inside our country. This would mean that even though an industry may not be enjoying natural advantages in regard to the supply of raw materials, cheap power or anyone of them, it is very necessary that that industry should be developed for catering to the needs of foreign markets. For the development of such an industry it may be necessary that raw materials should be imported.

An example of this will be found in the case of plastic Industry where the raw material namely moulding powders are not available in the country. India's Plastics Industry has been built up with the help of imported raw material and it is now building up export markets in the neighbouring countries which would earn foreign exchange resources for the country. Therefore, in the case of such an industry the availability of raw materials inside the country in order to enable it to receive State protection should not be a necessary condition. Similarly in case of other Engineering Industries which can easily cater for foreign markets, it may be necessary to import steel because of shortage inside

the country. The Association, therefore, feel that due to the necessity of our having to export a large number of articles in order to balance our payment position, it may be necessary for the Government to relax some of the conditions imposed by the Fiscal Commission of 1921-22.

Question 34.—The policy of *laissez free* under which the Government of a country has not to interfere with the industrial and commercial aspirations of the country is dead and gone. In the present day economic conditions of the world, the Government of every country has actually assisted the promotion of its trade and commerce. It is therefore, not necessary for the Association to emphasise the importance of Governmental interference for the promotion of our trade and industry. Private enterprise has already given place to controlled economy and it is very necessary that our Government actively support the industrialisation of the country both by fiscal and non-fiscal measures. In the opinion of the Association non-fiscal measures have more importance than the fiscal measures especially on account of partition which has created for India two land frontiers one on the East and the other on the West, the result of which would be that the smugglers trade would flourish and the fiscal measures adopted by the Government would not fully meet the requirements of the situation. It is apprehended that if the Fiscal Commission recommends help to our secondary industries by heavy protective import duties the smuggler's art will make small the protective wall, since the long boundary lines between the Dominions of India and Pakistan have become the life lines of the smuggler's enterprise. It is to be understood that partition has made protection by import duties of small avail for many industries. For instance if we raise the protective duty on cycles in the Indian Dominion say to 60% while in the Pakistan the duty is 20% we will find thousands of foreign cycles wheeling down from Pakistan into the Indian Dominion. Suppose India wants to protect the [illegible]bearing industry in India by raising the import duty to 70% while the Pakistan import duty is only 10% we will then stimulate the Pakistan smuggler to ply a very profitable trade with India with this easily concealed material, which is very small in size but costly in price. We thus come to the paradox that it is not so much the import duties in India that will ultimately protect Indian industries as the Pakistan import duties.

Question 35.—The Association strongly believe that an appropriate tariff policy suited to the country will go a long way in the development of our industries and in building up our foreign trade. What the Association has in mind is that if Government assist the development of our industries both by fiscal and non-fiscal measures and actively support the development of our export trade, it would greatly benefit the country. There are a large number of engineering industries which have been established in the country during the last 10 years and most of them are in a position to export to the neighbouring countries. If restriction on imports is placed and standardisation of quality is achieved, export trade is bound to develop. The Association are not in a position to say if any country has developed her industries without active Government assistance.

Question 36.—In the judgment of the Association the objectives of tariff policy in the short period should be :

(i) to accelerate the pace of industrialisation in the country;

(ii) to introduce mechanisation in agriculture for the Association believe that human flesh and blood should not be required to do the job which iron and steel can do;

(iii) to raise the standard of living of the masses;

(iv) to aim at fuller employment of India's teeming population.

Question 37.—The national aspirations of India have all along been towards following a protective tariff policy for the country. It has always been the hope of Indians who have the best interest of the country at heart that a free India will follow a protective policy. The country till 1947 had been groaning

under the hardship of a virtual free trade that had been imposed upon her by her rulers in their own interests. Indian economy has been exposed to the full blast of foreign competition and as such the country's industrialisation has proceeded at a very slow pace. Under the present circumstances the Association strongly believe that the Fiscal policy best suited for India is protection. It is very necessary for free India to follow a protectionist policy for some time in order to catch the arrears of our growth the various sectors of our economy and having risen to the full economic stature it will be easy for us to give up the crutches of protection. It should not be understood that the Association plead for a closed economy. In the preparatory period we too need have only a controlled economy.

Question 38.—In the opinion of the Association the conditions for regulating the grant of protection or assistance should be the same as laid down by the Government in their terms of reference to the Tariff Board appointed in 1945, as these conditions can cover almost any industry in the country which is worth development. The Association would, however, suggest a liberal and helpful outlook by the Tariff Board and the Government. This becomes necessary because interpretation of the conditions might create difficulty for an industry which otherwise is eligible for protection. For instance the phrase "Within a reasonable time" is a vague one. An industry might take 20 years to develop sufficiently to carry on without State assistance or protection whereas another industry might be able to do it within 5 years and, therefore, what is reasonable time is a matter which depends upon the circumstances of each industry.

The Association, however, would like to make it clear that protection should not be indiscriminate to any and every industry. Moreover, what is very necessary is that the Indian Standards Institution lays down the standards at an early date for all the articles manufactured in India and a highly qualified technical expert should be attached to the Tariff Board for purposes of determining standards, specifications and qualities of the products of such industries which go for protection. At the present moment the Tariff Board does not have any means of determining it except to ask for consumers views which under the present circumstances of the country do not carry it far. It is, therefore, necessary that standard tests carried on by the Tariff Board Officials themselves coupled with the views of the consumers should be the criterion of standard quality.

In regard to the cost of protection the Association would like to emphasise the fact that nothing is more costly to the nation than the export of its capital and resources to foreign countries in exchange of their goods and services. If a country were to depend for all time on imported articles, her future would always be in danger. The cost of protection to the community at large has not been scientifically worked out by any Tariff Board so far. To the mind of the Association it would appear that the cost of protection to the community is perhaps the measure of the difference between the landed cost of the imported article and the fair selling price of the indigenous product. The question, therefore, naturally arises whether an Indian should go on paying for sometime X plus Y, Y being the measure of protection or he should send out of his country X for all times. The reply to the question is obvious. If India's teeming millions have to be provided with employment, if the standard of living of the masses has to be raised, and if the national dividend of the country has to be increased, increased industrialisation is the only remedy and increased industrialisation in its turn depends upon protection. The Association have no doubt in their mind that the community has to shoulder this burden gladly.

Question 39.—The Association would like to give special consideration to the needs of basic industries first. Thereafter should come the associated and secondary industry and the last of all industries producing consumer goods. But the Association are conscious of a danger in making the above statement. Every industry is important for the nation and no hard and fast rule can be laid down in regard to the grant of protection with regard to special consideration or priority.

Question 40.—The Association do not agree with the view that grant of protection should be considered for an unborn industry. At least no question

of protection should arise by customs tariff. There are so many ways open to the Government to help the growth and development of industries and the Association would recommend the application of only non-fiscal measures in case of unborn industries.

Question 41.—(a) The best method of affording protection to an industry, in the opinion of the Association, with certain reservations, is by protective import duty. Bounty or subsidy can also be granted in certain cases. The system of pool prices is unworkable in actual practice except in very selected commodities like virgin metals. There are a large number of articles and in each article there are thousands of dealers and it is very difficult to work this system for industries seeking protection. The Association would like to make it clear that the system of quantitative restriction on imports should be applied in almost all the cases. The reason for this recommendation of the Association is that the restriction of imports has a great bearing on the psychology of the consumers. Moreover, guaranteeing the Indian market for the indigenous product is the least that Government should do. In the present circumstances of the Indian industries specially in the field of engineering, Indian industry cannot be expected to compete with the quality products of the West which have been in the field for centuries now. Quality is a matter of experience in technical skill and know-how.

(b) The normal method of protection should be a combination of protective import duty and restricted imports.

(c) The Association would recommend the appropriate method to be determined in each case on its merits. The conditions which a Tariff Board should keep in mind in selecting the method of protection should be—

(i) that the industry is one which without that particular method being applied cannot hope to exist. An instance of this would be found in the case of industrial plant and machinery where consumers are expert people and they would not care for a new Indian article so long as they can have access to imported machines. It may, therefore, be necessary to restrict the market for imported articles,

(ii) that the industry is one where the grant of protection by protective import duty or by restriction of imports would be a heavy burden on the consumers. In such a case only subsidy may be desirable,

(iii) that the cost of raw materials and labour compare proportionately less to the cost of the total product, and

(iv) that there is a world monopoly in a product or in the acquisition of raw materials.

Question 42.—In such circumstances the Government policy should be to prohibit imports temporarily.

Question 43.—(a) The purpose of export duty is twofold. In the first place they are mainly revenue and in the second place they are imposed for countervailing any currency measure which the importing countries of Indian commodities might adopt. The Association would, therefore, recommend that export duties should be sparingly imposed and in any case their action should not be to hamper exports.

(b) The Association quite agree with the view that in case of critical shortages export control should be utilised for making the supplies available to the domestic consumer. In so far as the second question regarding conserving domestic supplies of raw materials for utilisation by domestic industries is concerned, a large number of considerations come in. For instance the relative importance of the particular raw material in the export trade of the country, the importance of the consuming domestic industries, the price of similar imported articles etc. On account of such factors the Association would not like to make any definite observations on this question. But the matter can be thrashed at the time of the oral evidence.

Question 44.—No hard and fast rule can be laid down regarding the application of any fiscal measures for maintenance of exports by an established industry. Each case has to be judged on its merits,

Question 45.—In the first place the Association would like to register their objection on the method by which the cost of production of an indigenous commodity is arrived at. The objections of the Association are based on actual experience of having conducted a large number of Tariff enquiries. At present the Tariff Board takes into consideration the cost of raw materials, labour charges and overheads, interest on working capital and a certain percentage on block. This leaves out of consideration some items of expenses like selling etc. It may be noted that the landed cost of the foreign article is a price which includes the commission to the agent in India as well as the profit of the manufacturer in foreign countries. The Association understand that the selling agent's commission in India is very high in almost all the imported articles. This fact gives a great competitive strength to the dealer in competing with the indigenous product in the country. The result is that the quantum of protection arrived at by comparing the landed cost with the cost of production of the indigenous products does not give sufficient relief. Moreover, the Tariff Board takes the landed cost of a commodity on a particular date from the Collector of Customs, which method is not at all correct because the competition which the Indian industry has to face is from not a particular consignment but from the available stock in the country. The Tariff Board does not make any effort to find out the trend of prices in future with the result that in some cases the protection granted does not come to much. A perusal of some of the Tariff Board reports will convince the Fiscal Commission that in a large number of cases the estimates of cost of production for the future have been falsified invariably. The result has been that the quantum of protection granted has not at all helped the industry. Rate of profit allowed to the Indian industry has been another factor in restricting the growth of engineering industries. The Association, therefore, would urge that the Tariff Board should be instructed to find out the landed cost over a period and not on a particular date. Similarly, in consultation with some Cost Accountants of repute a certain standard formula should be adopted in order to guide the Indian industries to present their accounts before the Tariff Board.

Question 46.—Yes, the Association would strongly recommend that the import duty should be varied according to the landed cost of the various foreign products in the Indian market, and this should be done almost immediately. The industry should not be required to move the Government for this purpose. There should be an administrative department attached to the Ministry of Commerce whose main duty should be to get daily reports from the port towns and watch the progress of the foreign prices in order that they are enabled to effect the variations without much difficulty.

Question 47.—Customs duties when they are utilised for giving protection to an indigenous industry may take one of the two forms. They may be either specific, that is to say, a definite sum to be paid for a definite weight or measure of the commodity or they may be *ad valorem* in which case the duty is expressed as a percentage of the value of the commodity. The advantage of a specific duty consists in the case and certainty with which it is collected. The customs officials can easily know that the duty to be paid is so much. There is less likelihood of a dispute arising between the Customs Authorities and the importers. In case of *ad valorem* duties the main difficulty lies in ascertaining fairly accurately the value of the goods to be assessed. Further the system of *ad valorem* duties involves certain disadvantages to the importer. A rise in the price of the commodity means a corresponding rise in the duty paid. On the other hand specific duties suffer from obvious disadvantages. When prices are fluctuating considerably, a specific duty results in continual changes in the rate of duty. From the point of view of Government revenue *ad valorem* system is probably more advantageous.

From the point of view of protection the system of specific duty gives no assurance that the intentions of the Government will be carried out. If the general level of prices rises the full protection designed by the Tariff Board may not be afforded. On the other hand if the general level of prices falls the protection may prove excessive.

From all these difficulties it would appear that it is not easy to pronounce any judgment on the utility of either of the two duties. The Association on

the whole would recommend that once the Tariff Board have come to the conclusion that an industry has to be effectively protected they should recommend the type of duty which would be most desirable keeping in view all the circumstances of an industry to be protected.

Question 48.—In the opinion of the Association what the Fiscal Commission have in mind is the utility of import quotas under which it may be laid down that the maximum amount of the commodity which may be imported during a given period would be so much. The Association feel that in cases where the restriction of imports is considered as necessary for protecting a certain industry which does not meet the total demand of the country and where the total demand can easily be ascertained import quota may be utilised with advantage. Quotas have certain advantages inasmuch as the home producers can exactly know what quantity of imports will come in but here are certain disadvantages and the Association would, therefore, recommend that quota system should be utilised with care and caution.

Question 49.—No. Each case should be decided on its merits.

Question 50.—In first part of the question is not clear. In so far as the reduction in the revenue duty is concerned the Association feel that they can be modified but this would require expert examination for which the Association would suggest the appointment of a Committee to go into this question in detail.

Question 51.—This has already been covered in reply to questions already answered.

Question 52.—In the opinion of the Association it will not be necessary for Government Institutions to participate in foreign trade except in abnormal circumstances.

Question 53.—In view of our replies to question 52, the question does not arise.

Section E

Non-fiscal measures for the promotion of Trade and Industry

Question 54.—In the opinion of the Association the non-fiscal measures that Government should adopt for the promotion of our trade and industry should be :—

(a) to lighten the burden of railway freight rates.
(b) improvement in land acquisition facilities for development of industries.
(c) provision of technical training,
(d) establishment of a Labour Academy for training Trade Union Officials.
(e) modification in some of the existing laws relating to industry,
(f) reduction in taxation,
(g) provision for adequate supply of controlled raw materials for construction of new factories and for regular production,
(h) supply of cheap power,
(i) provision for technical training by Government Ordnance factories,
(j) Government purchases should invariably be made from local sources.

Question 55.—(a) Under the present conditions of control, the Association suggest that the least that Government could do to help the development of engineering industries is that licences should be issued expeditiously for importing raw materials which are not available locally and the customs duties should be made light. In so far as the supply of iron and steel is concerned, Government should rationalise its distribution in consulation with the industrial organisations of the country. Engineering Industries have been practically starved since 1945 and there would be very few industrialists who would venture out in new fields, unless the existing situation improves.

(b) In regard to the supply of essential plant and machinery there have been very few complaints received by the Association and the Association feel that the development of plant and machinery industry inside the country is

very necessary in order that local industries may not have to depend upon foreign supplies of such machinery as can be manufactured within the country. There are enough resources available inside the country and the report of M/s. Ford, Bacon & Davis which has been submitted to the Government of India would indicate how our industries can be developed for the purpose.

(c) So far as fuel and power are concerned, so long as Government continue their fixed selling prices of coal neither coal nor electricity can be cheap. Industries have been clamouring for declaring the present fixed prices of coal as maximum prices in order that any deal below the maximum prices may be legalised, but Government have not so far cared about it. In so far as the development of thermal power stations and hydro works are concerned, the Association look for Government schemes to fructify.

(d) The Association very much wish that there should be cheap, adequate and quick transport and for this purpose it is necessary that the Indian rivers should be made navigable throughout the year. This would along with the railways improve the transport situation in the country.

The freight policy underlying the railway administration and transport requires immediate revision. It was framed long ago mainly with a view to helping the export of our produce and the import of foreign materials when Indian Industries were in infancy. Now since many of them have reached maturity and further rapid industrialisation of the country is a necessity to minimise the evil of unemployment which grows with the growth of population, the situation urgently requires a different orientation of the frieght policy which should be set definitely and purposefully to accelerate the industrial progress of the country. In the vast sub-continent of India, it happens that some important industries are situated far from the industries consuming their products and it also happens that some important industries and it also happens that some essential materials are found far from where they are required. A wise national freight policy would adjust its freights to ease such positions and not insist on arranging freights on the basis of what the traffic can bear.

To summarise, the outlook of Railways requires drastic change; the consideration in future should not be how a certain policy will affect Railway budgets but how it will help existing industries and promote further industrialisation; the industrial giant, when once on the move, will carry with ease many a budget deficit. Unless the whole structure of freight policy is changed it is not possible to industrialise the country to a large extent. It is significant to remark here that with the same sea freight from the U.K. to any port in India from Karachi to Rangoon imported articles are available at the same price in all the port towns and their neighbourhood. With the present freight policy they find an immediate and even distribution throughout the country at a very cheap cost. Similar products locally manufactured work at a disadvantage. An imported fan, for instance, could be easily distributed all over the country for the same price but an Indian fan will have to pay Rs. 5/- to Rs. 8/- as freight from Calcutta to any upcountry town. This works as a subsidy for imported articles. It is high time that the whole railway freight policy of the country should be revised. River canals and water courses should be developed and a net work of well co-ordinated rail, road, and water transport system should be evolved while coastal marine traffic run by Indians should be organised to meet the growing demand of Indian industries.

(e) For the supply of technical personnel of different grades, Government of India have already taken action in establishing 4 high powered technical Institutions and the Association hope this would meet the demand of Indian industries for technical personnel. Moreover, as the Association have elsewhere suggested Government should appoint Industrial Engineers at important cities like Bombay, Kanpur, Calcutta and Madras to advise and assist small scale industries.

(f) If the Industrial Engineers are appointed and a small statistical office is attached to them, it would take care of the supply of technical information.

(g) In regard to finance, the Association do not wish to make any detailed observations as it is a patent fact how Government action has already dried the sources of our finance. One point, however, which the Association would emphasise is that contractors' bills for the supply of stores to Government should be paid for immediately.

Question 56.—The Association have no particular views to offer.

Question 57.—In the opinion of the Association the existing organisations like the Import Advisory Council, the Export Advisory Council, the Central Advisory Council of Industries, the Development Committees are taking good care and for the present it is not necessary to add to them.

SECTION F

Fiscal policy in relation to Commonwealth preferences.

Question 58.—In view of the changed economic and political conditions in the world as well as in India, the entire question of Imperial Preference and the General Agreement on Tariff and Trade and the Havana Charter on World Trade and Employment necessitate a new approach. Owing to growing importance of manufactured articles in our export trade and the entry of industrial raw materials in our import trade preferences should be entered into with a careful eye in the national interest. They should be reciprocal and mutually advantageous.

Question 59.—The principles that the Association would recommend to guide any scheme of preferences may be enumerated as follows :—

(i) Preferences granted should not reduce the quantum of protection enjoyed by the Indian industries.

(ii) More emphasis should be laid on preferences to be obtained on industrial raw materials and capital equipment and machinery.

(iii) The preferences should not lead any foreign country to discriminate against us.

(iv) Finally, such agreements should help the industrialization of the country.

Questions 60 *to* 65.—The association have no views to offer.

SECTION G

Treatment and obligations of protected and assisted Industries.

Question 66.—(a) Yes, industries receiving protection or assistance have obligations to the community in general.

(b) (i) The Association agree that the price policy of the protected industries should be helpful to the consumer. In this case the Association would draw the attention of the Government to the protection granted to the Iron and Steel Industry. Before the industry got established in the country, the foreign manufacturers of steel were charging higher prices but after the grant of protection the prices of foreign products tended to fall and what is more interesting to note is that to-day the price of Indian steel is the lowest in the world.

(ii) In the opinion of the Association there is no necessity of making any special provision for the treatment of labour employed by protected industries. The consumer dictates the terms and if the community can afford to pay its labour handsomely, the Association feel, protected industries would not deny fair return to labour.

(iii) & (iv) The protected industries have already done commendable work in the field of research. For instance the Association would like to refer the Fiscal Commission to the work done by the Tata Iron and Steel Co. in this respect.

(v) Improvement in the available supply of technical labour will help to improve the quality of indigenous products and may lead to reduction in the cost of production. The protected industries should be treated in the same way as other industries in the matter of training of apprentices or Government scholars.

(vi) Taking into consideration the particular circumstances of each industry, distribution control can be exercised if circumstances so warrant.

Question 67.—(a) It is necessary to stipulate that no protected or assisted industry will engage in any practice in respect of production, distribution or prices if it is going to harm the community. But in certain extraordinary circumstances like shortage of raw materials, transport difficulties, labour troubles, some control may be necessary and industry should be allowed to exercise such control.

(b) The protected industries or any other should have absolute right to form associations or combinations to protect their interests and increase the volume of their services to the community. Industrial associations have a great disciplinary influence and the Association strongly feel that the industry should be encouraged to form associations.

Question 68.—There is no need to lay down any special conditions regarding the financial structure of protected industries. The existing laws of the land and the terms of reference to the Tariff Board take sufficient care about it.

Question 69.—(a) The Association are not satisfied with the present arrangement for the standardisation and control of quality of industrial products in India but they strongly hope that the establishment of Indian Standards Institutions and the Indian Society for Quality Control will improve the situation.

(b) The Association would recommend that the matter of standardisation and regulation of quality be left over to the two Institutions named above.

(c) The Constitutions of the Indian Standards Institution and the Indian Society for Quality Control will explain the structure and function of the two organisations mentioned above.

Question 70.—It is not necessary to incorporate obligations of protected industries in statute.

Question 71.—(a) The Association do not think it necessary that any special administrative body is required for the purpose. The Tariff Board should be able to keep watch.

(b) The Association would very much welcome the addition of a special wing of inspection with the permanent Tariff Board.

(c) No, there is no necessity for Government association with the management of protected industries.

SECTION H

Organisation, methods and procedure.

Question 72.—The Association do not consider that the existing organisations will be able to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal and (ii) non-fiscal measures. At present the Ministry of Commerce is, in the main, responsible for protection matters. It is assisted in its work by (i) the Tariff Boad (ii) Departmental Committee which scrutinises the applications for protection and the recommendation of the Tariff Board (iii) the Customs Department which carries out the function of ascertaining and collecting duties. The Ministry has no department for administering the non-fiscal measures properly.

Question 73.—The suggestions of the Association in regard to the creation of adequate and necessary machinery are as follows :—

(i) The present *ad hoc* Tariff Board should be replaced by a permanent one created by Statute with necessary statutory powers to translate the intentions of the State, in regard to rapid industrialization of the country, into action. From the amount of work done by

the present Tariff Board during the last four years it would appear that the work of the Board is of varied nature and quite heavy in volume. It would, therefore, be necessary to enlarge the composition of the permanent Tariff Board. At present the Tariff Board does not have sufficient technical assistance and experience. In so far as engineering industries are concerned the Association would very strongly recommend that the Board should be empowered and obliged to co-opt a member for each industry having sufficient knowledge about the industry concerned. It is the experience of the Association that the work of the Tariff Board has been greatly hampered because of the absence of expert technical knowledge available to it.

(ii) There should be a specialized Department of Tariffs attached with the Ministry of Commerce who should be charged with the work of looking after the work connected with protection. This Department should be in charge of a Joint Secretary.

(iii) Similarly, there should be a full-fledged Secretariat attached with the Tariff Board for keeping a watch over the affairs of the protected industries.

(iv) In order to help the Customs authorities, an administrative Officer of the Ministry of Commerce solely in charge of the protection work should be attached to Collectors of Customs at the port towns. This officer in addition to helping the customs officials in regard to leviable duties, and decisions of the Government relating to protection matters, will help the industries about prices of imported products, wrongful entry of protected or prohibited commodities, and the like.

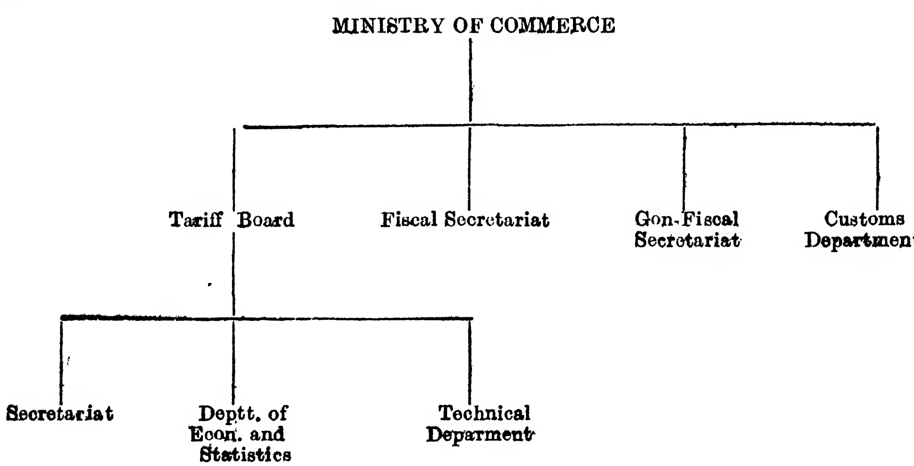
(v) A printing press for the Tariff Board is very necessary.

(vi) The Tariff Board should also have an Inspection Wing and a small department of the Indian Standards Institution attached to it.

Question 74.—(a) & (b) The Association do not agree with the view for establishing a comprehensive organisation like the Trade and Industrial Planning Commission. The Advisory function of the Tariff Board, the administrative part of the Ministry of Commerce should be treated separately in order to ensure efficiency and expert examination of the issues involved.

Question 75.—(a) The Association would prefer a series of specialised organisations dealing with these particular subjects.

(b) The following chart will indicate how to correlate the functions of the various administrative organisations :—



Question 76.—The present pattern with the changes described above should continue.

Question 77.—Yes, the Association agree.

Question 78.—(i) Yes.

(ii) With the provision of co-option of a technical expert as a member of the Board, the Association would favour the recommendation of a Fiscal Commission of 1921-22.

Question 79.—In the opinion of the Association, the functions of the Tariff Board should be widened. The Association agree with the recommendations of the Indian Fiscal Commission of 1921-22 in regard to the functions of a Tariff Board. In the opinion of the Association following, in the main, should be the functions which would devolve upon the Tariff Board :—

(i) To investigate the claims of particular industries to protection and to make recommendations regarding the rate of protective duty or any alternative measures of assistance or both.

(ii) To watch the effect of protective duties or other measures of assistance on industries; to review periodically the results of such protection of each industry and to make recommendations when necessary for the modification or withdrawal of protection.

(iii) To investigate the relations between the rates of duty on raw materials, partly finished products and finished products; to make recommendations for adjustments in these rates, and to suggest solutions for conflicts of interests between different industries.

(iv) To report which industries need assistance on the ground that they are essential for purposes of national defence, and in what manner such assistance can most conveniently be given.

(v) To consider the effects of excise duties on Indian industries.

(vi) To report on what commodities revenue export duties can safely be levied and at what rates.

(vii) To consider the effects of *ad valorem* and specific duties and tariff valuations on various articles, and to make recommendations for any changes that may be desirable.

(viii) To consider to which articles preferential rates of import in favour of the United Kingdom or any other country might be extended and what the preferential rates should be.

(ix) To report on proposals for trade agreements with foreign countries.

(x) To investigate questions in connection with the treatment of Indian products by foreign countries and the advisibility of taking any retaliatory action in special cases.

(xi) To investigate any complaints regarding combinations of manufacturers to the detriment of the Indian consumer and to make recommendations for any necessary action.

(xii) To watch generally the effects of the tariff policy on the cost of living.

(xiii) To study the tariff systems of other countries and report how far they affect Indian economy.

(xiv) To report to the Government as and when required on the factors that lead to increase in the cost of production of Indian manufactured goods or imported articles.

(xv) To advise Government as and when required of measures whereby initial protection may be secured in the most economic basis.

(xvi) To enquire, as and when required by Government, into the cost of production of a commodity produced in the country and to determine its wholesale, retail or other prices, and to report on the same.

(xvii) To recommend to Government, as and when required, measures if necessary for the protection of India's industries from dumping from abroad.

(xviii) To undertake studies, as and when necessary, on the effects of *ad valorem* and specific duties and tariff valuations on various articles and the effects on tariff concessions granted to other countries.

Question 80.—Please refer to replies to question 79.

Question 81.—The Association do not consider that the present structure and organisation of the Tariff Board are adequate for the discharge of their duties. In regard to the changes and modifications, please refer to replies to questions 72, 73, 74(a) and (b) and 75(a) and (b).

Question 82.—The Association do not think that the present procedure under which an industry's fitness for protection is considered only on application by that industry is sound. There is no doubt that, as a general rule, industries should apply for protection but an application by an Industrial Association should also be sufficient ground for the Tariff Board to consider the claim of an industry provided facts and figures are available.

Question 83.—In so far as the small scale and unorganised industries are concerned, in the opinion of the Association, non-fiscal measures would go a long way towards their development except in exceptional cases. At present these industries are not scientifically organised with the result that it is difficult for them to satisfy the tests of the Tariff Board.

Question 84.—In the opinion of the Association, an industry should have the right to address its application to the Tariff Board direct who should be empowered to consider applications without interference from Government.

Question 85.—The provision for the Tariff Board receiving the applications direct and fixation of a time limit would cut out much of the delay in the present procedure.

Question 86.—The Association feel that the present working methods of the Tariff Board are quite satisfactory. The only suggestion which the Association would make regarding the place of the public hearings is that public enquiries should be held at concentration points and the representatives of the Industries should not be called to a fixed place as is being done at present. Moreover in regard to the publicity of the Tariff Board announcements, the Association suggest that some better method should be adopted because at present it sometime happens that the Tariff Board's announcements do not appear properly in the daily Press.

Question 87.—Yes, the Association consider that the Tariff Board's recommendations should normally be accepted by Government and implemented by it without modifications unless very important and weighty reasons warrant otherwise. The Government should publicise the reasons for rejecting the recommendations of the Tariff Board.

Question 88.—(a) Yes, the Association consider it necessary that the Tariff Board should be placed on a statutory basis.

(b) The statute should lay down only the composition, and functions of the Tariff Board and the broad principles of procedure. The statute should not fetter the discretion of the Tariff Board nor should it prescribe the general procedure to be followed in the Tariff enquiries and the manner of enforcement of the obligations of protected or assisted industries.

(c) Please refer to reply to question 88 (b).

Conclusion.

We have now reached the last stage of the enquiry. In conclusion the Association would like to touch upon certain fundamentals which they believe would be necessary for rapid industrialisation which apply to the entire field of Indian industries in general and the Engineering industries in particular. These fundamentals consist in :—

(1) Adequacy of facilities for technical education ;

(2) Availability of raw materials such as iron and steel, non-ferrous metals and coal;
(3) Electric power at reasonable cost;
(4) Adequacy of transportation and
(5) Engineering and Management experience commonly known as "know-how".

The Association at appropriate places have emphasised the comparative scarcity of technically trained men and it is necessary that facilities for technical education should be provided in order to fill this gap. The immediate bottleneck of industrialisation is the lack of trained technical personnel both in the administrative services of our Government and in the organisation of our industries. As industrialisation progresses the need for Government to have a trained staff of administrators within engineering and industrial background will become obvious. Government contacts which industries have already increased and in the future economic set up of the country it is understood, State guidance will become very necessary. Government should, therefore, consider whether the time is not ripe to create a new administrative service in the curriculum of whose studies engineering subject's, theoretical and practical economics, economic history, industrial psychology, cost accounting etc. would be included. As regards the lack of experts, managers, foremen and technicians to operate our industries, the country looks to the philanthrophy and perspicacity of our industrial leaders. Further Government of India, while entering into contracts with foreign firms for the supply of materials to this country or for industrial projects, should stipulate that Indian students will be trained by them.

The shortage of basic raw materials like iron and steel and coal and coke has greatly hampered the growth and development of Engineering industries and the Association feel that without adequate supply of these materials no amount of fiscal protection would be able to make them stand on their legs. It has been the experience of the Association that protection granted to many of the engineering industries during the last four years could not be availed of to the full extent owing to the fact that most of them had to work below capacity for want of raw materials.

Supply of cheap electric power is a great consideration for future development of Indian industries. The development of major industries will be helped greatly by cheap electric power and so will the survival of existing small industries and the establishment of new ones. The Association strongly recommend the utilisation of low grade Bengal and Bihar coal for power generation in two or three large power-houses located in the colliery area in collaboration with the Central Government, Government of Bihar and Bengal, the Railway Board and the existing large distributors of electric energy in these areas with a view to seeking a practical solution of the difficulty of cheap electric power in these provinces through co-operative efforts. These powerhouses will supply the necessary power for industries and agriculture as well as for the electrification of the railways within a range of 100 to 150 miles from Calcutta. There are various other advantages on which the Association need not dilate.

In regard to the adequacy of transport facilities the Association have pointed out in the course of their replies to several questions that the development of transport facilities rail, road and river is very essential for the development of existing industries and for industrialising undeveloped regions of the country. The greatest need of the country to-day is for engineering and management experience which is commonly called "know-how". The Association greatly hope that the Government of India would try and fill this gap, for the rapid industrialisation of the country.

In so far as the question of finance is concerned the position at present is not very encouraging. The nerves of the risk taking entrepreneour class are benumbed to undertake any new enterprise and its vitality is pressed out under the weight of excessive taxation, labour legislation and Tribunal awards. It has been a matter of greater interest that in recent months Government have shown signs of being alive to this state of affairs and the Association hope that Government would take steps to remedy the defects in the present tax structure of the country.

In regard to rationalisation, the Association would suggest to Government to depute an officer of necessary competence to study the question of rationalisation of Indian Industries and submit a preliminary report (which should not take more than four months) as regards the lines on which rationalisation of particular industries should proceed. Not only will such a report be useful to Government as a supplement to the larger study of future protection to Indian Industries but its publication will educate the public how far particular industries can help themselves, to a certain extent, by their own efforts, and it will also tend to exert a moral pressure on hesitating and temporising elements of the industries concerned to get together to undertake rationalising measures. The importance of rationalisation in planning is obvious. There is very little rationalisation in our industries at present and if this individualistic tendency persists in future, it will be a great drag on our planning and Government will have to iron out this tendency and by its direction and control, induce the industries concerned to get together for their own good.

16th December 1949.

In continuation of our letter No. Eng/F-2/871, dated the 15th December, 1949, I am directed by the Committee of the Engineering Association of India to make certain additional observations in regard to the fiscal policy of India.

In so far as the protection of industries necessary for defence is concerned, the Association would strongly recommend that the Government of India should not impose any conditions for their protection as they are needed for the defence of the country and they should be developed at all costs. It may be pointed out that a number of engineering industries supply military stores and, therefore, it is very necessary that their development should be fostered in the country. Just as Ordnance Factories have to be maintained in spite of the fact that there may be no emergencies, similarly, some of the engineering industries which are needed for defence have to be developed and maintained in efficient condition.

One very important point which the Association would like the Fiscal Commission to keep in mind in regard to protection of industries is that protection granted by the Tariff Board should not be nullified by actions of other Ministries of the Government. For instance, experience shows that in certain cases as soon as a Government have enacted legislation for protecting certain industries, Railways have increased their freight rates or that labour charges have been increased on account of interference by the State through adjudication awards. The Association strongly feel that the protection to an industry should be effective protection if its development has not to be retarted. Similarly, the Association wish to state that the result of any protection Government may give, coupled with an Exchange Policy to safeguard Indian industries against foreign competition, should not be neutralised by its Taxation Policy which tends to deprive Indian industries of the necessary reserves to buy up-to-date new machinery for their expansion programme and to replace obsolete machinery. The present Taxation Policy does not give much scope for building up such reserve, and after the war it requires urgent consideration of Government to provide facilities for these industries to build up such suitable reserve. Government should also assist in the industrialisation of the country by encouraging replacement of obsolete machinery by allowing more generous obsolescene allowance under the Income-tax Act than they do at present.

In the end the Association would like to draw the attention of the Fiscal Commission to some of the economic effects of the partition which have their direct bearing on the task of the Fiscal Commission. Some of the economic effects of the partition which require the attention of the Fiscal Commission are given below :—

(a) At one stroke, India has been deprived of her natural strategic frontiers in the West and North-West, entailing greater military expenditure than before the Partition in guarding the unnatural frontiers created by Partition and thus curtailing the fund available for nation-building purposes. Fear of military insecurity added to inadequacy of our Navy and Air Force causes distant tremors in business confidence regarding our industrial future.

(b) The unnatural long border lines between Pakistan and India are becoming the life lines of smugglers' trade which evades the customs impost and disrupts the normal legal channels of business. We know how much wheat and tea are being smuggled across the border of Eastern and Western Punjab.

(c) By depriving India of the surplus wheat etc., of the Punjab, it has added to our expenditure of dollars for the import of additional food.

(d) After the Partition our railway transport, inadequate as it was, has been further deranged and slowed down to the great injury of our industry and trade, by the opting for Pakistan of the Moslem personnel of the running staff and repair shops of our railways and by the Karachi Port and the North Western Railway not being available for foreign ships bringing imports for Northern India which have now to be diverted to the Port of Bombay and routed from there for Northern India through the already over-congested G.I.P.Ry. and B.B.C.I.Ry.

(e) Our Shipping Industry has been hit by the deprivation of the facilities previously enjoyed at the Ports of Karachi and Chittagong and by the serious congestion at the Bombay Port owing to the diversion to Bombay of imports for Northern India previously landed at Karachi, which means great delays in getting berths and consequent heavy expenses on demurrage so much so that foreign companies whose ships touch Bombay have increased their freight rates.

(f) If we deduct from the value of refugee property left by Hindus and Sikhs in Western Punjab the value of the property left by Moslems in India, the loss to India would total up to a colossal sum.

(g) The withdrawal of deposits from Indian banks operating in Pakistan both by Pakistanis and also by Indians who left Pakistan and the loss suffered by these Banks in bad debts would amount to more than 10 crores.

(h) The insistence of the Pakistan Government that Indian Insurance Companies operating in Pakistan should cover 100 per cent. of their business in Pakistan by Pakistan securities has practically lost to India Insurance business in Pakistan though recently the restriction of 100 per cent. is reduced to 50 per cent.

(i) Previous calculations made by the Tariff Board of the amount of protection necessary to make undivided India self-sufficient as regards particular industries have now to be revised because in the smaller post-partition India some protected industries may have reached self-sufficiency and protection given to them would have to be reduced.

(j) The scope of the Tariff Board to help Indian industries by protective duties is, so to say, reduced, because 9 crores who were previously Indians are now Pakistanis and they need not buy from India.

(k) Pakistan creates another problem for the Tariff Board in making protective duties ineffective in India under certain contingencies. The difference between the import duty in India and in Pakistan should not be very great. Otherwise smuggling will come into operation. Suppose on a certain article, Pakistan's import duty is 20 per cent. but Indian duty is 60 per cent. in such a case the temptation to import the article in Pakistan and smuggle it into India would be considerable.

(l) Our future gains from Tourist traffic would be affected by the fact that two of the important show places Darjeeling and Kashmir (if Kashmir remains with India) have to be reached through Pakistan territory with the consequent inconvenience and harassment to tourists.

(m) Undivided India would have been better served as regards its air transport by fewer air service companies than exist today in the two Dominions. The multiplicity of air services in the two Dominions among other causes have tended to reduce the working of all air companies to an unprofitable state and both in Pakistan and India some companies are on the verge of closing down.

(n) The precipitate decline in the share values in our stock-exchange and the drying up of the investment money is partly due to the difficulties of the rich refugees from the Punjab who had obviously to cash what shares and securities they had to meet the new conditions. These rich merchants and Zamindars of the Punjab were one of the main supporters of new investments. The are no more. The yearly loss of income of these unfortunate merchants and Zaminders is calculated at 10 crores of rupees.

(o) Antimony is an important metal for alloying purposes in the steel industry. Chitral antimony ore was previously reduced and antimony made from it by the Star Refining Co., of Bombay which has now to import its ore from Bolivia. Baluchistan chrome ore is an important raw material for the steel industry. Being far away from the centres of steel industry in East India, it was never used before the Partition by the Indian Steel manufacturers. The loss Baluchistan chrome ore will be only felt by India when the present scattered sources of this ore near about the main Steel Works and in the Mysore State are exhaused. Pakistan at present buys Indian Steel because it is about Rs. 100 cheaper than steel from Europe or America. Ultimately when normal times return, it seems Western Pakistan will be a great centre of re-rolling industry, rolling from imported billets and to that extent Indian Steel Industry will suffer, when with two new Steel Works set up by the State, there is a surplus capacity for export in India, especially if the coastal freight from Calcutta to Karachi tends to be higher than the freight from U.K. or continent to Karachi.

(p) Coal—60,000 tons per month is required for the N.W. Railway and 40,000 for the East Bengal Railway apart from civilian uses. The N.W. Railway received in 1948, 26,985 tons from U.S.A. and 35,421 from U.K. The East Bengal Railway received 7,563 tons from the U.K. This shows how our market for coal will tend to be adversely affected by Partition when normal times return and South Africa also compete in the Pakistan market.

(q) As export to Pakistan from Western countries and Japan revives and normalcy returns the large group of miscellaneous industries in India that either grew up or developed during the last war, manufacturing sewing machines, radios, batteries, non-ferrous materials and alloys, steel furniture, machine, tools, tool steel, electric lamps etc., will experience a grievous loss of market in Pakistan which will naturally buy in the cheapest market.

Calcutta September, 24, 1949

Fiscal Policy in relation to Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade

In reply to your letter No. 1-Fis/A(5)/49, dated the 25th June with which the General Questionnaire on Fiscal Policy has been issued by the Fiscal Commission, I am directed by the Committee of the Engineering Association of India to express their views on Part II of the Questionnaire relating to Fiscal Policy in relation to Havana Charter on Trade and Employment and General Agreements on Tariffs and Trade as under :—

General

Before attempting detailed replies the Association would like to give a brief resume of the history of the negotiations that led to the Havana Charter on Trade and Employment and the General Agreement on Tariffs and Trade. Towards the end of 1945 the United States Government circularised for consideration by the peoples of the world a document called "Proposals for Expansion of World Trade and employment". International economic co-operation which had, by then, already taken some concrete form in the establishment of such international bodies as the F.A.O., I.M.F. and the I.B.R.D., was sought to be reinforced by further measures dealing with trade barries and discriminations. *The proposals contained a strong plea for a concerted effect to realise trade from the various restrictions imposed on it during the inter-war years with a view to securing the expansion of world trade* on a multilateral basis and through it increased employment all over the world. Since this objective required that national policies in respect of international Trade and Employment should be in line with each other, it was proposed that an International Trade Organisation (I.T.O.) should be set up, through which member nations could promote national and international action to fulfil this purpose.

Following the proposals of the U.S. Government, conferences on trade and employment at international level were held in London, Geneva, and Havana between 1946 and 1948, and the deliberations of these conferences resulted in the following two documents :—

(1) General Agreement on Tariffs and Trade (with a Protocal of Provisional Application), and

(2) the Havana Charter for an International Trade Organisation.

G.A.T.T.—Following the lead given by the U.S. Government negotiations are initiated at Geneva on April 10, 1947 by 23 countries (including India) sharing among them approximately 70 per cent. of the export and import trade of the world for substantial reduction of tariffs and other trade barriers and elimination of preferences on a reciprocal and mutually advantageous basis. These negotiations which ended on October 30, 1947, resulted in the framing of the General Agreement on Tariffs and Trade.

The text of the Agreement consists of three parts :—

Part I provides for general most-favoured-nation treatment, and deals with tariff concessions set forth in the schedules to the Agreement; Part II reproduces such commercial policy provisions of the Draft Charter adopted at Geneva as are necessary to safeguard the value of the tariff concessions; and Part III deals with territorial application, customs unions, and matters peculiar to the Agreement itself such as acceptance, modifications, amendment and accession.

So far as India is concerned, negotiations were conducted with 15 countries and the concessions exchanged took the form of reduction in customs duties, reduction in preferential margins and binding of existing tariff treatment against future increase. They covered 12 items of export from India and 13 items of import into India. In offering concessions India adhered to three main principles :—

(1) Concessions are to be demonstrably in the interest of national economy, or at least not injurious to it.

(2) They should not relate to products which are protected or which might claim protection during the next three years.

(3) They should not result in excessive loss of revenue.

Some of the provisions of the Agreement were initially unacceptable to India. These were subsequently modified. As a result certain deviations from the principles of most-favoured-nations treatment are now permissible so that India can maintain her present sanctions against South Africa, and India and Pakistan can grant concessions to each other without extending them to other countries. Similarly although *import restrictions can be used for protective purposes only with the prior approval of the contracting parties to the agreement,* it has been provided that such approval will be automatically given whenever the restrictions are designed to protect industries established during the period from 1st January, 1939 to 24th March, 1948, or are found to be necessary to protect industries engaged in the processing of domestic raw material or of the bye-products of domestic industries. Besides, permission has also been given to the use of quantitative restrictions on balance of payment grounds.

The Protocol of Provisional Application was signed on behalf of India on the 8th June, 1948, and the Agreement came into effect provisionally 30 days after on the 9th July, 1948.

The Agreement is open to revision or termination after the end of December, 1950.

Havana Charter

The Havana Charter was signed on the 24th March 1948, by 53 nations. It is a document which prescribes code of behaviour in international trading relations and provides for the formation of an International Trade Organisation as a new specialised agency of the United Nations. The aims of the Organisation are to promote the expansion of International Trade by fostering the increase of production and employment and by encouraging the economic development of the backward areas. It sets forth a series of international commitments with respect to national economic policies regarding tariffs, trade restrictions, quotas, exchange controls, preferences, state trading subsidies, inter-Governmental Commodity Agreements, the international aspects of domestic employment policies, economic development and internal investments.

The Charter consists of 9 chapters (106 articles) which set out the specific obligations and immunities of a member in respect of international trade and tariff and other associated matters (such as production and employment).

It provides for and facilitates, international investment for economic development and reconstruction, permitting at the same time such safeguards as may be necessary to ensure that foreign investment does not lead to interference with internal affairs or national policies.

It recognises the need for Government assistance to economic development and reconstruction in the form of protective measures, and while discouraging unwise use of such measures, permits its applications, in certain cases, by negotiations with member affected, and in others, with prior approval of the I.T.O. This approval, however, is made automatic in respect of certain specified industries such as those which were established between January 1, 1939, and the date of the Charter, or those which are devoted to the processing indigenous primary commodities.

The Charter further recognises that special circumstances may justify new preferential agreements between two or more members. Such proposals need I.T.O's approval by a 2/3rds majority (of the members present and voting). Approval however is made automatic if the proposed preferential agreement fulfils *certain stated criteria or conditions such as, contiguity of the contracting parties* or their belonging to the same economic region, or the assurance of a sound and adequate market.

The Charter lays down a Commercial Policy covering questions of tariffs and preferences. It deals *inter-alia* with the application of general most-favoured-nation treatment, reduction of tariffs and elimination of preferences as well as quantitative restrictions. The basic rule on quantitative restrictions is that they are prohibited. But there are specific exceptions relating to (1) the preventing or relieving of critical shortage of foodstuffs (2) internal control schemes to safeguard agriculture and fishery products and (3) balance of payment difficulty. Quantitative restrictions when allowed, are to be used in all general cases in a non-discriminatory manner.

After giving a short history of the Havana Charter and the General Agreement, the Association give below their replies to the various questions raised by the Commission.

Objectives.

Question 89.—Article 1 of the Charter gives the purpose and objectives as follows :—

(1) To assure a large and steadily growing volume of real income and effective demand, to increase the production, consumption, and exchange of goods and thus to contribute to a balanced and expanding world economy.

(2) To foster and assist industrial and general economic development particularly of those countries which are still in the early stages of industrial development and to encourage the international flow of capital for productive investment.

(3) To further the enjoyment by all countries, on equal terms, of access to the markets, products, and productive facilities which are needed for their economic prosperity and development.

(4) To promote on a reciprocal and mutually advantageous basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce.

(5) To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world commerce, reduce productive employment or retard economic progress.

(6) To facilitate, through the promotion of mutual understanding, consultation and co-operation, the solution of problems relating to international trade in the fields of employment, economic development, commercial policy, business practices and commodity policy.

Thus, set forth, the purpose and the objectives of the Charter are laudable but the underlying idea through all these objectives is the promotion of international trade which the Association feel can be of advantage, at the moment, only to highly industrialised countries. The Association, in general, approve of the basic purpose and objectives but are constrained to state that co-operation of this sort is only possible in a world where all the contracting parties are placed on, more or less, the same footing. The economics of the highly industrialised countries compel those countries to adopt a policy where by they can export their finished products and get sufficient raw material and food for their people and industries. In strong contrast to this, for a country like India, which we make bold to state, has just entered an era of industrial development the national interests demand that the indigenous industries should be sufficiently developed in order to create a balanced economy in the country. India is a country where about 75 per cent of the population still depends upon agriculture, and the industrial population is still a microscopic minority of the entire population. The need of transferring more people from the field to the factory has been persistent for long but on account of industrial and commercial policies which the country had had to adopt under an alien rule did not allow her to develop her industries fully and bring about an equilibrium in her economy.

The Havana Charter has been envisaged, perhaps, as a result of the growing restrictions that were imposed by the Continental countries during the inter-war period. The Havana Charter aims at the removal of these restrictions primarily in order to help the development of world trade. The economics of free trade *versus* protection has been sufficiently discussed during the last three decades or so and the Association do not think that, at present, India is in a position to subscribe to the tenets of a free trade policy. When a country embarks on industrialisation, it has to utilise its raw material resources and appropriate them to the best advantage and in so doing has to bring about restrictions on the inflow of such goods as begin to be manufactured in the country. This becomes necessary in the initial stages in order to give breathing scope to its nacent industries. The entire industrial history of the United States, the United Kingdom, and other highly industrialised countries is full of such restrictions and rigorous measures which they had to adopt to protect their industries.

Questions 90 & 91.—The provisions and safeguards laid down in the Charter in Chapter II are not adequate to meet the requirements for the economic development of an under-developed country like ours. In Chapter II of the Charter Article 3 it has been provided that :

> "measures to sustain employment, production and demand shall be consistent with the other objectives and provisions of this Charter. Members shall seek to avoid measures which would have the effect of *creating balance of peyments difficulties for other countries."*

The Association do not understand how India can assure that any measure she takes to correct her unbalanced economy will not result in creating difficulties for other countries. No country to-day discloses its assets and liabilities position to another country nor is any country in a position to foresee what the position is likely to be after a certain period of time. For instance very recently, India had to overdraw on her own accounts and measures had to be hurriedly taken in the month of May in order to correct that position. When it is difficult in the case of one country, how much more difficult it would be if a country under international obligations were to be obliged to take such actions as would not disturb the balance of payment position for others.

Article 6 of Chapter II provides :

> "the Organisation shall have regard in the exercise of its functions to the need of members to take action within the provisions of this Charter to safeguard their economies against inflationary or deflationary pressure from abroad".

It is not understood how the Organisation will be able to help in this direction. Monetary policies followed by different countries of the world have serious repercussions in case there is inflationary or deflationary pressure. The economic history of India is full of such injustices in the past when in order to discourage exports from and encourage imports into this country, other Government had taken measures to bring about a fall in their prices. An international body of the type of the International Trade Organisation, the Association believe, would not be equal to the task. In the economic sphere of today the more highly industrialised countries have the upperhand in dictating policies. For instance, it would be recalled that in order to maintain the price of wheat at a certain level, the American people used to burn their wheat so that the market supply may not be larger. Similarly, a country like Germany after 1932 applied a series of economic controls in order to foster her trade. These are only instances of economic difficulties which the Association feel the Havana Charter cannot easily solve.

As it has been elsewhere pointed out, the Havana Charter aims principally an expansion of international trade and, therefore, it has thought of devising every means so that international trade may expand. Article 7 under Chapter II provides for fair labour standards. It states :

> "Members recognise that unfair labour conditions, particularly in production for export, create difficulties in international trade and accordingly each member shall take whatever action may be appropriate to eliminate such conditions within its territory".

There is no doubt that under the present conditions of the country India cannot afford to adopt international standards in the field of labour. During the last 20 years that the country has been a member of the International Labour Organisation, under pressure of I.L.O. Conventions, she has been bringing out one labour legislation after another with the result that Indian industries have not been able to keep pace with the growing labour legislation in the country. Labour costs have increased considerably and the country now is not in a position to go further in this direction. The American businessmen know it for a fact that there are countries where cheaper labour makes it convenient for them to compete in international markets. Further, under the stress of the war American industries have so much developed taht it is a matter of great concern to them that they are able to export their products to foreign countries. It is for this reason that such provisions have been incorporated.

Economic Development and Reconstruction

Chapter III of the Havana Charter deals maily with the economic development and reconstruction of under-developed and war-ravaged countries. Under Article II para. 1(b) it has been provided that :

> "No member shall take unreasonable or unjustifiable action within its territory injurious to the rights and interests of nationals of other members in the enterprise, skill, capital, arts or technology which they have supplied".

Who will decide the question whether an action taken by a member is unreasonable or unjustifiable? The International Trade Organisation, where highly industrialised powers will wield power, will be the ultimate dictator of its policies and undeveloped countries like India will be the hopeless spectators in this melodrama of international economics as they are in the field of politics. A country alone is able to decide what appropriate methods it should adopt if it has to encourage foreign investment. The Association feel that an International Organisation will not be able to lay down conditions for employment of foreign investments. The Prime Minister of India has already made a statement on the country's policy for foreign investments in the country and the Association feel that it is quite adequate. If foreign capital feels frightened simply because of fantastic apprehension of the future, the country cannot afford to risk its future by entrusting its policy to international dictation.

Article 13 dealing with Governmental assistance to the economic development and reconstruction is the most important so far as India is concerned. Article 13(1) states :

> 'They recognise that an unwise use of such measures (protective measures) would impose undue burden on their own economics and unwarranted restrictions on international trade and might increase unnecessarily the difficulties of adjustment for the economies of other countries".

Who will judge whether protective measures adopted by a country are being wisely used or otherwise. India is a country where many of the industries, specially in the field of engineering, have developed only recently and it is necessary for her to foster their development by taking suitable measures. The justice or injustice of such measures cannot be left to be decided by others.

Clause 4A of Article 13 states :

> "If.........there should be an increase in imports of any product concerned, including products which can be directly substituted therefor which if continued would be so great as to jeopardise the establishment, development or reconstruction of the industry or branch of agriculture concerned and if no preventive measures consistent with the provisions of this Charter can be found which seem likely to prove effective, the applicant member after informing and when practicable consulting with the Organisation would adopt such other measures as the situation may require provided that such measures do not restrict import more than necessary to off-set the increase in imports referred to in this sub-paragraph; except in unusual circumstances such measures shall not reduce the imports below the level obtained in the most recent representative period preceding the date on which the member, initiated action.

This provision unduly hampers the right of a member to develop its industries. Further, the phrase "such measures shall not reduce imports below the level obtaining in the most recent representative period" is a difficult provision which, from experience we find India cannot adopt because if this country were to initiate any such measures, the most recent period would be 1946-47, 1947-48 and 1948-49 etc., when imports have been on a considerable scale and the country would not be justified in restricting imports to that level. For instance, the country imported electrical accessories in a single year valued at about one crore of rupees whereas the normal requirements of the country at the present level of prices would not be even half that amount. Similarly, in case of some other engineering industries imports have been quite huge and it is feared that the imports of the last 2 or 3 years may be sufficient for another two years.

Further Clause 4(b) of Article 13 states :

"the Organisation shall determine as soon as practicable whether any such measures should be continued, discontinued or modified. It shall in any case be terminated as soon as the Organisation determines that the negotiations are completed or discontinued".

This is a most unsatisfactory provision because the International Organisation cannot determine whether a country's need has been fulfilled. It is the country itself that shall determine the time when such restrictive measures should cease. The Association do not approve of the procedure of prior approval. The Assocition are of opinion that a country should be free to resort to protective measures including quantitative restrictions on imports to foster its plans of economic development and reconstruction. The Government should not abrogate the right to resort to protective measures and delegate it to an outside agency. India should have an unfettered right to grant protection to its industries and take necessary measures to permit the establishment of others. It has to be noted that protection is granted to an industry after detailed investigation by an expert body like the Tariff Board. After the recommendations of the Tariff Board the Government of India carefully weigh the *pros and cons* of the recommendations and take decision.

Another factor on which the Association would like to lay special emphasis is that of public prejudice in favour of foreign goods. Clause 4(a) of Article 13 referred to above states that

"if imports of any particular product would be so great as to jeopardise the development etc.........of the industry.........the member country after informing and when practicable consulting with the organisation adopt restrictive measures under certain limitations".

In this connection it may be noted that imports may do a great damage to an indigenous industry even when they are quantitatively not very large. In India public mind is greatly prejudiced in favour of foreign goods. As long as foreign goods are available, indigenous goods are treated at a discount. The Government should, therefore, be at liberty to adopt measures, without outside interference, which may safeguard local industry.

The principle of prior approval, as incorporated in the provisions under Article 13 relating to Quantiative Trade Restrictions and Economic development, was qualified at Geneva by the following two important provisions :—

(1) that the proposed measure is unlikely to be more restrictive of international trade than any other practicable and reasonable measure permitted under the Charter, which could be imposed without any undue difficulty;

(2) that quantitative restrictions may be adopted in anticipation of the concurrence of the Organisation.

Further provisions have been introduced in the Havana Charter, under which the organisation would have to give its approval if an under-developed country which proposes to apply quantitative restrictions can show that the industries it proposes to protect fall under one of the specified categories.

General Assistance to Economic Development and Reconstruction

Chapter III is full of restrictions on actions which the Government can take in order to foster economic development. Clause 6 of Article 13 provides that a member has to.

"notify the Organisation and to transmit to the Organisation a written statement of the considerations in support of the adoption for a specified period of the proposed measure relating to restriction of import and the Organisation will give permission if it is established that the measure:

(1) is designed to protect particular industry established between 1st January 1939 and the date of this Charter which was protected during that period of its development by abnormal conditions arising out of the war: or

(2) is designed to promote the establishment or development of a particular industry for the processing of an indigenous primary commodity, when the external sales of such commodity, have been materially reduced as a result of new or increased restrictions imposed abroad; or

(3) is necessary in view of the possibilities and resources of the applicant Member to promote the establishment or development of a particular industry for the processing of a by-product of such industry which would otherwise be wasted, in order to achieve a fuller and more economic use of the applicant Member's natural resources and manpower, and in the long run to raise the standard of living within the territory of the applicant Member and is unlikely to have a harmful effect, in the long run, on international trade; or

(4) is unlikely to be more restrictive of international trade than any other practicable and reasonable measure permitted under this Charter. which could be imposed without undue difficulty, and is the one most suitable for the purpose, having regard to the economics of the industry or branch of agriculture concerned and to the applicant Members' need for economic development or reconstruction."

From the above it would be clear that these conditions do not suit the needs of the country. With regard to sub-para 1 of clause 7(a) which provides for import restrictions designed to protect industries established during the period from 1st January, 1939 to 24th March, 1948, the Association desire to point out that this would not give relief to many Indian industries. It may be that an industry started during this period was not protected. In such a case, measure for import restriction cannot be taken. Further a number of engineering industries were established before the World War II. Although the war gave them tremendous opportunity for development, it cannot be said that they are strong enough to stand the full blast of foreign competition from highly organised. financially and technically sound foreign firms. For instance, Electric Fan Industry came into existence in the early thirties of the present century. Quantitative restrictions in such a case may be necessary, as in the case of any other industry, which came into existence during the war period. The Steel Furniture Industry is another instance. This industry is well organised and in quality and craftsmanship in manufacture, it is second to none. It will thus be seen that although an industry might have been established before 1st January, 1939, it may require protection from Government on the same footing as any other industry established during the period of the war. Industries started after 1948 are also out of consideration under this provision.

Further, it is not clear as to what is meant by "processing of an indigenous primary commodity". If we put widest possible construction. it will include almost all the industries because all of them use indigenous raw materials, to a large extent, and the non-existence of such industries would mean that these resources would remain unutilised. What is very important in this connection to consider is that the I.T.O. shall concur in the proposed measure only where the external sales of such primary commodities have been materially reduced as a result of new or increased restrictions imposed abroad. This is a serious situation and the Association feel that the Government of India should not allow themselves to be swayed by any other considerations except the interest of the Nation which would require that India must establish her own industries in order that the natural resources of the country are fully utilised and in order that her teeming millions are given adequate opportunity for gainful employment. Referring to condition (iii) it is not clear how the country can ensure that the restriction of imports are unlikely to have a harmful effect on international trade.

The above provisions of the Charter are subject to two important conditions one of which is that :

"the Organisation shall not concur in any measure under the provisions of (i), (ii) or (iii) above which is likely to cause serious prejudice to exports of a primary commodity on which the economy of another member country is largely dependent."

This is a very vague condition because no country in the world is such where we can say that the economy of a particular country is largely dependent on

imports of a primary commodity from another country. India, for instance, exports mica to foreign countries. Mica is a primary commodity but we cannot say that the economy of any country is largely dependent on mica alone. And, therefore, the Association feel that this condition may be interpreted narrowly with the result that the I.T.O. might construe that if the export of a commodity is seriously threatened because of developments elsewhere such a member country would not be allowed to protect her industries. India is one of these countries which have been exporters of raw materials during the last so many years. And if now the country were to decide to process her raw materials inside the country and protect such processing industries and if such an action results in the stoppage of exports of the primary commodity, the I.T.O. will not give its consent. This is a grave situation and the Association think that our country is not in a position to undertake such obligations as imposed by the Charter.

Further, under clause 7(b) of Article 13 it is provided that the

> "applicant Member shall apply any measure permitted under sub-paragraph (a) as to avoid unnecessary damage to the commercial or economic interest of any other Member including interests under the provisions of Article 3 and 9".

This provision is difficult to comply with and the Association feel that no country can ensure the economic stability or commercial prosperity of another country.

Strict adherence to these provisions would affect many of the industries of the country. The Association feel that the case of each industry should be judged on its own merit irrespective of the date of its establishment.

Again under paragraph 8 of Article 13 cases other than those falling under paragraph 7(a) have been examined. Here the Charter lays down that the Member country shall afford opportunity to other countries for consultation and inform the I.T.O. about it. In the event of failure of mutual consultations the I.T.O. will initiate the discussions who will examine the objections received having regard to all the necessary conditions. International trade and standard of living of the applicant Member are the overwhelming considerations which the I.T.O. propose to keep in mind. So far as the international trade is concerned, the Association have already expressed the view that its promotion is the condition of the existence of the highly industrialised countries. So far as standard of living is concerned, highly industrialised countries never worried about the people of under-developed countries so far and now when political changes in South East Asia and in the continent of Europe have changed the course of economic development, the Western countries want to come to the rescue of the consumers by offering them foreign articles.

Preferential Agreements

The Association will now examine the provisions of Article 15 relating to preferential agreements for economic development and reconstruction. Here the provision under clause 6(b) does not quite accord with the needs of India. Under this sub-paragraph it has been provided that if the proposed agreement is likely to cause substantial injury to the external trade of a Member country not party to the agreement, it shall inform interested members of its findings and shall require the members contemplating the conclusion of the agreement to enter into negotiations with that member. Further it has been provided that the I.T.O. will award compensation to the injured member in case of disagreement. Who will pay this compensation? Many of the smaller countries on the Continent are in a position to offer to India much needed capital goods and raw materials which are also available from other Western countries. If on account of considerations like lower price and quicker deliveries etc., India were to conclude an agreement with any one of these countries, the interests of other countries are likely to suffer. The Association maintain that this is an obligation which the country cannot undertake.

Foreign Investment

Question 92.—As regards international investment for economic development and reconstruction Article 12 of the Charter provides among others, that

(1) the international flow of Capital will be stimulated to the extent that Members afford nationals of other countries, opportunities for investment and security for existing and future investments;

(2) to determine whether and to what extent and upon what terms it will allow future foreign investment;

(3) to prescribe and give effect on just ownership of existing and future investments;

(4) to preserve and give effect to other reasonable requirements with respect to existing and future investments;

(5) the interests of members whose nationals are in a position to provide capital for international investment and of members who desire to obtain the use of such capital to promote their economic development or reconstruction may be promoted if such members enter into bilateral or multi-lateral agreements relating to the opportunities and security for investment which the Members are prepared to offer and limitations which they are prepared to accept of the rights referred to in sub-paragraph (c).

Clause 2 of Article 12 further provides that Members will undertake

(i) to provide reasonable opportunities for investments acceptable to them and adequate security for existing and future investments and

(ii) to give due regard to the desirability of avoiding discrimination as between foreign investments.

The Association are of opinion that foreign capital is necessary for establishing new industries and maintaining the existing industries in which foreign capital is already invested. The Association, therefore, fully endorse the views of the Prime Minister, Pandit Jawaharlal Nehru, who has already enunciated the policy in his announcement on the 6th April, 1949, when he indicated that the existing foreign investment would be free from any discriminatory restrictions, that the facilities for remitting of profits earned in India, would be continued and if any foreign enterprise was compulsorily acquired, the compensation would be paid on a fair and equitable basis. He further welcomed foreign capital in a constructive and co-operative role in the development of India's economy.

The policy enunciated by the Prime Minister, therefore, is in accord with the provisions of Article 12 of the Charter. The Association would, however, like to state clearly that foreign capital should not be allowed in those sectors of economy which are already developed. Foreign capital should be allowed only in those spheres of industry which are not yet developed and which required highly skilled technical knowledge and technique of production which are not available at present in the country. Engineering industry in all its branches is a technical industry in which foreign concerns, through years of technological experience and knowledge, organising ability, financial soundness, have acquired a stage of perfection in comparison to which the newly established indigenous industries, with little technical experience and inadequate financial resources stand no comparison. If there are two different kinds of concerns started on production in a particular sphere, the principle of survival of the fittest will soon operate. The bigger firm, on account of superior competitive capacity, immeasurable larger financial resources and up-to-date knowledge of modern technique of production will soon drive out of existence the indigenous firm.

The Association would, therefore, suggest that while all kinds of encouragement should be given to foreign capital, it should be allowed only in those spheres which are not yet developed and which require a lot of initiative and poineering effort and which foreign capital by virtue of its technical experience and organizing ability, is capable of undertaking.

Subject to the observations made above, the Association consider that provisions and safeguards laid down in the Charter are adequate for the requirements of India provided Government of India do not hesitate in taking bold steps to safeguard Indian industries. Much depends on the attitude of our own Government as to the question of developing indigenous resources and industries. It will be recalled that Government spokesmen have given expression to the view that quantitative restrictions cannot be used for protecting industries, which is certainly not the case in the context of our adverse trade balance and need for economic development.

Commercial Policy

Questions 93 & 94.—The Association are not in agreement with the broad lines of the commercial policy as set out in Chapter IV of the Havana Charter. bold steps to safeguard Indian industries. Much depends on the attitude of to be applicable to all the member countries. It is not understood how this can be possible. India, for instance has been drawing special advantages from the United Kingdom market in the matter of her imports and therefore, it may be necessary to give the most favoured nation treatment to the United Kingdom whereas another country which does not supply India's needs may not get them.

Reduction of Tariffs.—Article 17 lays down that :

> " each member shall upon the request of any other member or members and subject to procedural arrangements established by the Organisation enter into and carry out with such other member or members negotiations directed to the substantial reduction of the general levels of tariffs etc....................."

The Association feel that no country should be under obligation to revise its tariffs simply because another member in order to develop its trade, wants it. Tariffs are raised for two purposes : (1) revenue and (2) protective. If it is a protective duty the question of revision should not arise at all; if it is revenue duty, the considerations of revenue alone for a country should weigh. Therefore, such a provision in the Havana Charter as puts an obligation upon a member country to carry on negotiations for revision of tariffs seems to be uncalled for.

The provision in paragraph 4(b) regarding compulsion on a member to continue to give concessions beyond a period of 2 years is also not in the interest of the country. As a matter of fact all the sub-clauses of this Article place restrictions on a member and the fortunes of a country in the matter of international trade should not be bound in this way.

National Treatment of Internal Taxation.—Article 18 relates to national treatment on internal taxation and regulation. The provisions under this Article require that no member country will apply any regulations etc., to imported products which are not applicable to internal products. In India unorftunately the contrary is the case particularly with regard to transport charges. India has been for the last so many years, giving more favourable freight rates from port towns to the interior with the result that this policy has been favouring the movement of imported goods to the prejudice of the local industry. The Association desire that such anomalies should not exist.

Paragraph 8(b) authorises a country to pay subsidies to the domestic producers derived from the proceeds of the internal taxes or charges applied consistently with the provisions of this Article and subsidies effected through Governmental purchases and domestic products. This will mean that the Government cannot give subsidy to the local industry out of collections of import duties levied on foreign product. This, Association feel would not be conducive to the interest of the country. The Tariff Board had recommended in the case of the Machine Tool Industry, for instance, that out of the proceeds from Tariff duties a certain sum should be set apart for the development of this industry. Such actions would not be possible if Government of India were to be a party to the Havana Charter. Further, paragraph 9 of this Article places restrictions on Government's power to fix maximum control prices which the Charter regards as prejudicial to the interest of exporting countries

Cinematograph Films

The provisions under Article 19 regarding special provisions relating to the cinematograph films are rather interesting. The Association feel that this provision has been incorporated perhaps because of the fact that the exhibition of films builds up national character and it may be necessary for a country to put restrictions on the use of foreign films. Following this example, the Association would like to state that consumption of indigenous articles by the nationals of a country is necessary in order that the prejudice in the public mind against indigenous articles in a country like India which has been habituated to the use of foreign products, may disappear.

Quantitative Restrictions

Article 20 deals with general elimination of quantitative restrictions. As a general rule it prohibits the imposition of restrictions of imports and exports and in so far as exports are concerned it permits prohibition in order to relieve critical shortage of foodstuffs or other products essential to the exporting member country but it does not give permission to prohibit imports if an importing country is placed in similar situations. This is a serious lacuna in the Charter and the Association desire that the Commission should give its due consideration to this provision.

The provisions of Article 20 are too rigorous in their application and the Association feel that the country should not be under an obligation to inform the I.T.O. regarding the imposition of quantitative restrictions.

Article 21 relating to restrictions to safeguard the balance of payments position lays down two important conditions under paragraph 3(e) where it is stated that members undertake (1) not to apply restrictions so as to prevent unreasonably the importation of any description of merchandise in minimum commercial quantities the exclusion of which would impair regular channels of trade or restrictions which would prevent the importation of commercial samples or prevent the importation of such minimum quantities of products as may be necessary to obtain and maintain patent trade mark etc. This, the Association feel, is inconsistent with the provisions made in paragraph 1 of Article 21 because in certain extreme circumstances it may be necessary to prohibit imports altogether and in that case regular channels of trade are likely to be impaired. The second condition involves an undertaking by a member to apply restrictions in a way as would avoid unnecessary damage to economic interests of any other member. Economic interests are likely to be affected and no such condition can be complied with. The import restrictions imposed by a member are likely to tell upon the economies of the exporting countries and the Association feel that our country has to look to its economy first.

Article 22 deals with non-discriminatory administration of quantitative restrictions and para 1 lays down that any prohibition or restriction to be applied by any member will be applicable to all the member countries. This may not be possible for our country. For instance, in case of South Africa, India is applying economic sanctions as a result of discriminatory policy followed by that country. This would be impossible if India were to ratify the Havana Charter. Paragraph 2 deals with distribution of restrictive quota among various member countries and lays down that wherever practicable, quota representing the total amount of permitted imports shall be fixed and notice given of their amount. Such information is likely to disturb the price structure in both the importing and exporting countries because the prices may go up or may go down as the quota fixed may be high or low. It would, therefore, be necessary that different countries keep this information strictly to themselves in order that the internal economic structure may not be unduly disturbed. Moreover, under a system of private trading it is impossible for Governments to canalise imports from a particular country. Reference to imports of steel, for instance, for the last 2/3 years will indicate that our prewar sources for supply of this material are no more available to us and, therefore, no quotas in favour of such suppliers can be maintained. Under the existing economic structure private parties take all the trouble of finding out

sources of supply and the Government come in the picture only after the negotiations have been completed. It would, therefore, be impossible for Government to fix quotas among different countries. Again paragraph 3(a) of Article 22 imposes obligations on a country to disclose quotas of imports allowed to different countries to each other. This is not practicable in actual practice because it is likely to antagonise feelings in case quotas of a particular country might be below their capacity or where a particular country looks for a definite market for its products in a particular country. Announcement by public notice of import quotas, imported quantities, etc., is not feasible in the interest of a country's economy.

Subsidies

Section C of Chapter IV deals with subsidies in general and requires a member country to disclose complete information to the I.T.O. and other countries regarding its subsidisation policy. This the Association feel is not workable in practice because subsidy is granted for the purpose of enabling the local industry to get established or for the purpose of encouraging exports in order to earn foreign exchange or matters which primarily affect a country's economy and the Association feel that any interference in this matter by an international organisation would not be conducive to national interest. The experience of the industry has been that some of the foreign countries have been subsidising their exports to say Indian market for a very long time in order to be able to compete and sell their product at a cheaper rate in this market. Similarly, if India were to follow suit which it may become necessary for her to do now that the country is free and is determined to industrialise and increase the standard of living of its people, such a policy would not be permitted. Such an action would not be possible if the country were to ratify the Charter.

Export of Primary Commodities

Then in regard to the special treatment of primary commodities, granting of subsidies for export purposes is strictly limited and severely interferes with the aspirations of the country to build up her export markets. For instance Article 28 in para 1 lays down that subsidies would not be granted for the maintenance or increase of export of any primary commodity so that a particular country may have more than an equitable share of world trade in that commodity. The I.T.O. has been given the function of determining the equitable share of every country in international trade. Such restrictions on the development of export trade would mean that a country can never aspire to change the pattern of its trade with a view to increasing its wealth. For instance India has so far been an exporter of primary commodities. But now her industries are developing fast and there may come a time when the country may have to take special measures to develop exports of certain processed commodities. This would not be possible because the provisions of the Havana Charter are very restrictive in their application.

State Trading

Section D deals with State trading and related matters. The Association feel that under the present conditions of mixed economy, a State Corporation may have to adopt special measures in matters of international trade. This would not be possible under the provisions of Article 29.

Restrictive Business Practices

Chapter V of the Charter deals with restrictive business practices. Members have got the obligation to take appropriate measures to prevent business practices affecting international trade which restrain competition, limit access to markets etc. This commitment covers practices of private or public commercial enterprises possessing effective control of trade among a number of countries in one or more products. Members affected by restrictive business practices may request the I.T.O. to arrange for consultation or the members may submit written complaint for investigation by the I.T.O. If the complaint

prima facie has substance, the I.T.O. will investigate the matter. The restrictive business practices have been defined as fixing prices, controls or conditions to be observed in dealing with others excluding enterprises from or allocating or dividing any territorial market or field of business activities or allocating customers; discriminating against particular enterprises. It may be noted from these that a country if it fixes prices of its products which affects international trade, such an action would be called in question by the member countries affected and will form the subject matter of complaint to the I.T.O.

For a country like India it may be necessary to promote, say, shipping industry by giving them special advantages by way of reserving to them work connected with our foreign trade. Similarly in the field of banking and insurance, Government assistance may be necessary and such actions of the Government will be subject of complaints. The Association feel that our country cannot afford to comply with this obligation.

Inter-Governmental Commodity Agreements

Chapter VI of the Charter provides for Inter-Governmental Commodity Agreements in regard to primary commodities which have been defined as any products of farm, forest or fishery or any mineral in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade. This provision has been made because of the recognition that the conditions under which some primary commodities are produced, exchanged or consumed are such that international trade in these commodities may be affected by special difficulties such as the tendency towards persistent disequilibrium between production and consumption, the accumulation of burdensome stocks, and prolonged fluctuations in prices. These agreements may be of two types: (a) Commodity Control Agreements and (b) other Inter-Governmental Commodity Agreements. The Commodity Control Agreement has been defined as an Inter-Governmental Agreement which involves :—

(i) The regulation of production or the quantitative control of export or of a primary commodity and which has the purpose or might have the effect of reducing or preventing an increase in the production of or trade in that commodity, or

(ii) the regulation of prices.

Such agreement shall be designed to assure the availability of supplies adequate at all times for world demand at prices which are in keeping with the provisions of Article 57(C) and when practicable shall provide for measures designed to expand world consumption of the commodity. Such agreements shall make appropriate provision to afford increasing opportunities for satisfying national consumption and world market requirements from sources from which such requirements can be supplied in the most effective and economic manner due regard being had to the need for preventing serious economic and social dislocation and to the position of producing areas suffering from abnormal disabilities.

India is interested in the above provisions in so far as they help her to enter into agreements in regard to primary commodities like sugar, tea, coffee, rubber, manganese, iron ore etc., it may be possible for India to arrange for stability of prices of these commodities, but what is important to consider is that such agreements might adversely affect her interests in certain circumstances. For instance, if an international body were to expand the consumption of say, sugar and India may be asked to consume cheap Java sugar in place of *Gur*, her industry would suffer. Therefore, the benefits from these provisions should be regarded as double edged because while in one case they might help some of India's industries, they might act in other cases as deterrant to the development of other industries.

The Charter, however, permits bilateral inter-Governmental agreements as well, but subject to the general obligations enjoined by the Havana Charter with the result that under bilateral inter-Governmental agreements member

countries cannot resort to the exceptions such as export subsidisation, overall control etc. Therefore, the benefits accruing from bilateral trade agreements appear to be limited under circumstances of restrictions imposed by the Charter.

General Provisions

Coming to Chapter IX which is the last Chapter in the Havana Charter and which deals with the general provisions relating to relations with non-members etc. the Charter does not prevent any member from maintaining economic relations with non-members, but does not allow a member to seek any arrangements with non-members for the purpose of obtaining for the trade of its country preferential treatment as compared with the treatment accorded to the trade of other member countries or so to conduct its trade with non-member countries as to result in injury to other member countries. This is a very fantastic provision which has been made in the Charter inasmuch as it tries to establish a monopolistic control of international trade. Whereas, the basic purpose of the Charter is to expand international trade, create fellow feeling among the nations of the world, this provision militates against that spirit, in so far as agreements with non-member countries cause injury to trade of other member countries, the Association have nothing to say but even if it does not injure the interest of the other countries the Havana Charter prohibits a member country from getting any preferential treatment from a non-member country.

Question 95.—In reply to questions 93 and 94 the Association have pointed out the injurious effects which adherence to the Charter is likely to bring to the trade and industry of the country. For a precise reply the Association would define short period as consisting of 3 to 5 years and long period of more than 5 years. The Association feel that the acceptance of the obligations of the Charter would be injurious to India's interests in both the periods. The reasons for this feeling have already been explained in reply to questions 93 and 94.

Question 96.—In case India becomes a party to the Havana Charter it is doubtful whether she would be able to pursue policies of vigorous economic development relatively unhampered by the obligations which the Charter seeks to impose. Even the escape clauses set up a number of obstacles that must be surmounted. There are so many conditions and criteria which have to be fulfilled and satisfied. In almost all cases I.T.O.'s permission has to be obtained. Even after this has been done, there are many other additional obligations which must be assumed. In the case of development of other new industries through measures which are prohibited by the Charter India has to approach the International Trade Organisation. Membership of the I.T.O. it would appear, will not be of much help to this country. There is no doubt that if the Havana Charter comes into being India will be at a disadvantage by not joining it, but the advantages to be secured from bilateral agreements would depend upon the terms which the contracting parties are able to secure whether they are within or without the I.T.O. The Association, therefore, feel that India should not adhere to the Havana Charter and consequently participate in the proposed International Trade Organisation. India should make a request to the United Nations that as an independent country she is an infant and has not so far been able to feel her way and know her position, that she should be given a little breathing time, say for the next five years, during which period she should have the unfettered right of developing her industries in the manner she thinks best and that the industrially advanced countries like the U.S.A. and the U.K. should undertake the obligation of making India great industrially. The exigencies of the situation in the South East Asia require it and comparative inability of the Western powers to be of effective help in S.E. Asia demand that India should be made strong in order that she may act as a bulwark against the rising tide of communism in this part of the globe.

Question 97.—From the foreign policy pursued by the country during the last two years and her independent career it would seem that the country is not in favour of joining any power block. Following this pattern of neutrality in political affairs, the Association would recommend that in the economic sphere too the country should follow relatively a free policy, a policy of

neutrality, a policy which would enable her to secure the most advantageous terms from the countries of the world with which she has had her trading relations.

The Association would recommend that the country should follow a policy of bilateral trade agreements for the next five years. She should have unquestioned right to restrict imports for the development of her industries if necessary. If the country finds that it is necessary to subsidise production or export, she should have the power to do so. The Association suggests that Government of India should appoint a permanent Tariff Commission whose functions should be as follows :—

(i) To investigate the administration and fiscal and industrial effects of the customs laws of this country now in force, or which may be hereafter enacted, the relations between the rates of duty on raw materials and finished or partly finished products, the effect of *ad valorem* and *specific* duties, and compound specific and *ad valorem* duties, all questions relating to the arrangement of schedules and classification of articles in the general schedules of the Customs laws, and in general to investigate the operations of Customs laws including their relation to the central revenue, their effect upon the industries and the labour of the country, and to submit reports of its investigations.

(ii) The Tariff Commission shall put at the disposal of the President of India and Parliament whenever requested all information at its command and shall make such investigations and reports as may be requested.

(iii) The Commission should have power to investigate the tariff relations between India and foreign countries, commercial treaties, preferential provisions, economic alliances, the effect of export bounties and preferential transportation rates, the volume of importations compared with domestic production and consumption, and conditions, causes and effects relating to competition of foreign industries with those of India, including dumping and cost of production.

It is understood that such a body is functioning in the United States of America and Australia and that the Government of India would be doing great good to the country if such a Commission is appointed.

It is very clear that the country has to adopt a policy of direct encouragement to Indian industries. Unlike most other countries the Government of India was required till 1922 to adopt a policy of *laissez faire* towards Indian industries. As a result of the investigations and report of the Fiscal Commission of 1922 a policy of discriminating protection was adopted by the Government. With the exception of England most of the countries of the world have followed a protectionist policy for several with the result that now their industries have been sufficiently developed and the Association feel that our country which is undeveloped should not be asked to follow a suicidal policy with respect to her industries.

The Indian Tariffs have always been a matter of great concern to the Western Countries who had India as the market for their products. The Association has already pointed out that the Western Countries are now trying the Havana Charter to keep the markets of the world free to their industries. This is a serious matter and the Association would wish to emphasise that Government of India do not fall in line with their policy.

In view of the importance of India in International trade, India must watch with care the effect of the movement in other countries regarding tariffs even as these other countries are watching the development in our tariff. The Havana Charter which aims at lower tariffs and removal of restriction on foreign trade does not meet the present needs of the country.

The Commercial policy of the future must recognise reasonable national economic requirements of the people of a country if it is to promote efficient and effective utilisation of the economic resources of the country. The history

of modern economic development shows that most of the advanced countries in attempts to re-organise the structure of their industries have had to resort to protection for safeguarding their industries against unfair foreign competition.

Question 98.—In view of our recommendation not to ratify the Havana Charter, the question does not arise.

Question 99.—Subject to the observations made in reply to question 90 the Association agree with the main principles underlying the Geneva Agreement on tariffs and trade.

Question 100.—The principal commodities in respect of which India received direct concessions are jute and jute manufactures, cotton manufacture, cashewnuts, mica, shellac, coir mats and matting, sporting goods, carpets, spices and condiments, essential oils and tea.

The principal commodities in respect of which India has offered concessions could be classified under the following heads :—

(1) Food Items.

(2) Chemical Drugs and Medicines.

(3) Materials of Industrial Use.

(4) Consumer goods.

A glance at the composition of food items will show, that besides various cereals which in many cases had to be allowed free of duty, India has imported items such as bacon, ham, butter, milk, condensed or preserved, including cream, fresh apples, and pears, cheese, canned bacon, canned fish, canned meat, frozen meat, dehydrated vegetables, canned sardines, and pilchard, canned vegetable, canned asparagus, canned soup etc. on which a reduction of standard rates has been allowed. Besides many consumer goods have been imported which consist of items which may be called luxuries. This has meant a huge loss to India's revenue. The Committee feel that in trade agreements which are being entered into by the Government of India under provisions of the Charter, attempt should be made firstly to discourage import of luxury goods and secondly if such imports become inevitable duty should not be reduced to such a level that they bring down the Government revenue on the one hand and encourage imports on the other.

As regards concessions received by India, it has to be noticed that there are two items, namely raw jute and cotton in which a vital change has taken place since the partition of the country. India has now virtually to depend on Pakistan for the supply of raw jute and long staple cotton. India, therefore, stands to gain significantly nothing by way of concessions received from other countries on account of these two items which used to form the single main items of India's export before.

The Association, therefore, feel that conclusions arrived at previously on the basis of the facts which do not exist now, do not hold good under the existing circumstances. It would, therefore, be desirable that the question is considered again in the light of the changed circumstances.

Question 101.—Please see answer to question 100.

Question 102.—The Association have no statistical data to make any comments on the actual working of the tariff concessions granted by India to other countries. They would, however, point out that these concessions have not, in any way, conferred any special benefit to the Indian consumer because the articles of consumption have continued to be sold at a high rate in spite of the fact that the duties have been reduced. Similarly in regard to the stimulus to our exports as a result of the tariff concessions the Association find that our exports have not been encouraged either. The Government of India who have completed details with regard to these matters will be in a better position to explain.

Question 103.—The Association has no information on the subject.

Question 104.—Working of the tariff concessions granted by India should be studied for some time more before any conclusions should be arrived at with regard to their future application. Very unfortunately the period during which these concessions have been working has been full of unexpected happenings in India's balance of payments position with the result that the country has not been able to weigh properly the benefits to be derived from such arrangements.

Conclusion

Since the Fiscal Commission issued their questionnaire during the last few days a momentous change has taken place in the world economic conditions concerning the devaluation of the pound and sterling block. This has created a general uncertainty throughout the world and Pakistan's action in not devaluing their currency has added to the difficulties of the country. The Association desire to request the Fiscal Commission to advise the Government that in view of the very uncertain times, it would be desirable for them to ask the United Nations to defer this question for sometime, till more stabilised conditions re-appear and the world in general is in a position to consider this question.

INDIAN NON-FERROUS METALS MANUFACTURERS' ASSOCIATION, CALCUTTA

I. *Introduction*

I am directed by the Committee of the Indian Non-ferrous Metals Manufacturers' Association to address you the following memorandum regarding certain of the questions contained in the Questionnaire issued by the Fiscal Commission. In doing so, the Committee have been content with detailing the progress made by the Industry within the short period of its existence and focussing the Commission's attention on problems which are peculiar to it, and which will highlight some of the requirements of a Fiscal Policy necessary for integrated industrial development.

The Industry consists of :—(1) The mining and beneficiation of ores, the smelting of concentrates and the refining of the smelted products (2) the fabrication of semi-manufactures like sheets, circles, strips, rods, extruded sections, etc., (3) the production of foils, cables, metallic powders, (4) the refining of secondary metals, (5) the production of alloys and castings. The manufacture of many items including machinery parts, utensils, hardware etc., although coming under another classification in the industrial world depends for their raw materials on the non-ferrous metals industry.

II. *Development of the Indian Non-ferrous Metals Industry.*

The important Non-ferrous Metals with which India is immediately concerned are Copper, Lead, Zinc, Antimony, Aluminium, Magnesium and Tin. Of these, India's resources of Bauxite and Magnesite are big enough for the establishment of self-sufficient basic industries. She has appreciable reserves of Copper Ore, and Lead Ore some of which are being worked while none at all of tin and but limited quantities of zinc. The Antimony Refinery at Bombay which started during the war was based on the obtaining of ores from the property at Chittral, which has since fallen into Pakistan. The Refinery has therefore now become dependent on imported ore either from Bolivia or from Burma, unless fresh prospecting and exploration should reveal other workable deposits in the country as in the East Punjab. Lead production which is based on an estimate of 6,000 tons of refined metal per year may also be possible of being increased, with fuller prospecting of occurrences such as in the Central Provinces and Central India while Jaipur, Mysore and Sikkim may yield additional workable resources of copper not yet known.

The present position of India in respect of different Virgin Metals as also of manufactures and semi-manufactures may be indicated roughly as below :—

Virgin Metals

Name of the metal 1	Yearly total demands 2	Yearly supplies from Indigenous Industry 3	Remarks 4
		Tons	
1. *Copper* . . .	51,000 tons. (This is lower than the 70,000 tons accepted by the Tariff Board and is fixed having regard to the loss of certain consuming markets to India).	7,000	Nearly 44,000 tons will therefore have to be treated as deficit, of which about 37,000 tons may be imported in ingots, scrap and wire bars, *i.e.* as raw metal.
2. *Lead* . . .	24,300 tons. (The estimate by the Tariff Board of 15,000/18,000 tons has been found to be on the low side due to further expansion of the industry).	1,000	The installed yearly capacity of the Metal Corporation of India Ltd., is about 6,000 tons but their present production is expected at about 1,000 tons.

1	2	3	4
3. *Aluminium* . .	20,000 tons	..	The ingot capacity available at the moment between the two Aluminium Companies at their peak is about 7,000 tons; capable of expansion to 15,000 tons per year. For balance see under Semi-Mfrs. of Aluminium.
4. *Antimony* . .	600 tons	..	The indigenous capacity is sufficient to meet the total demand but the restrictive factor here is the supply position in regard to ores. Since the loss of the mining property in Chitral ores have to be imported from Bolivia.
5. *Zinc*	48,000 tons. (The tariff Board's estimate was 50,000/60,000 tons).	Nil	To be fully imported.

(The above estimates do not take into account recovery from scrap and its consumption).

6. *Semi-manufactures*

(a) *Copper and brass sheets.*	50,000 tons . . .	50/55,000 tons (Tariff Board's estimate of 15,000 tons has already been greatly exceeded).	Nothing is required to be imported except special size of plates required for locomotive manufacture and printing.
(b) *Rods of brass 2,500 tons and Copper including Arsenical and Extruded but excluding electrolytic black copper rods.*	2,500 tons. (Tariff Board's estimate was about 4,000 tons which we now feel was too high).		To be fully met from India, except a small percentage of special sections—the available capacity of the extrusion press and other rolling mills must be about 6,500 tons.
(c) *Electrolytic Black copper rods.*	(20,000 tons at peak of the two cable companies demand).	30,000 tons	
(d) *Copper and Brass wire (i) bare Copper wire* . .	10,000 tons . .	..	
(*ii*) *General* . .	2,000 tons . .	..	To be fully met from India except about 1,000 tons of special sections. The capacity for bare copper wire was put by the Tariff Board at 24,000 tons a year and of commercial wires at 4,000 tons a year.
Electric cables, V.I.R. .	50 million yds.	.	Sufficient to meet full demand.
Winding wires—Cotton insulated.	200 tons . . .	300 tons.	There is no capacity for paper insulated cables and Cambric Cables, which have to be imported fully.

1	2	3	4
Enamelled wire (B.S.S.) .	Small	..	100 tons, that is more than is sufficient to meet present demand.
Other sections of brass and Copper.	1,000 tons	..	Bulk of it made in India.
Tin based alloys (White Metals and Solders.)	7,000 tons	40,000 tons.	
Brass, Bronzes, and castings thereof (excluding cast utensils).	80,000 tons	100,000 tons.	This will cover also the melting capacity required for the manufacture of brass and copper sheets, brass and copper rods and brass and copper wires and still leave a surplus.
Lead sheets . .	1,000 tons	..	The full demand excepting sheets required in special sizes for the Chemical Industry is available within the country.
Lead pipes . . .	1,500 tons	..	Full demand to be met from country's production.
Zinc sheets and Strips .	2,500 tons	1,500 tons	Strips for battery manufacturing and sheets for printing blocks to be imported.
Aluminium sheets, for utensils.	15,000 tons	5,000/ 7,000 tons.	
Aluminium foils . .	750 tons. (About 300 tons more of strips may be required for milk-bottle capsule foils and other miscellaneous job).	..	(For the Tea Industry which is fully met from Indian production. Another 800 tons came in from abroad, which should have gone into Chocolate wrapping, Cigarette wrapping, etc., and partly re-exported to Ceylon).
Aluminium Powder .	500 tons for paints.		
Castings . . .	800 tons castings.		
General Engineering .	2,000 tons.		
Rods for cables . .	1,000 tons	..	For use in A.C.S.R. Demand for A.C.S.R. cables fully met between the Nicco and M/s. Aluminium Industries Ltd. while rods will be supplied by M/s. National Rolling Mills Ltd., if Aluminium wire bars are received. Even at twice or thrice this demand, these units could handle the same fully, as they are.

From the above account it will be clear that the Industry during the brief period that it has been in existence, has established itself well remembering that it had to start mostly with improvised machinery when import channels for the supply of most metal manufactures and semi-manufactures as also of capital equipments completely stopped during the war. The Industry gives employment to about 30,000 persons, even at the reduced output at which it is working in certain of its branches. It distributes in wages approximately Rs. 1 crore, 9 lakhs a year. Its invaluable importance as a key industry for the defence of the country was felt during the war since which time the Government of India committed itself to protecting and fostering it within the country.

III. *Assistance Now Available.*

The protective duties that are levied on different metal manufactures and semi-manufactures today are detailed below :—

1. Copper and Lead, copper scrap, lead ingots, lead scrap, zinc ingots slabs, blocks or bars and zinc scrap.	Duty free.
2. Tin, tin scrap, and tin plate scrap, Nickel and Nickel scrap, Cobalt, Chromium, Tungsten, Magnesium, Mazak and Scrap of all other Non-ferrous Metals and Alloys.	Duty free.
3. Brass ingots	10% Ad Valorem.
4. Zinc & Lead sheets	20% Ad Valorem.
Lead sheets for tea chests ...	30% Ad Valorem.
5. Yellow metal alloys other than brass, tin-solder, other white metal alloys type metal, Nickel alloys, manufactured goods such as Steam and Sanitary fittings.	30% Ad Valorem.
6. Brass sheets	30% Ad Valorem.
7. Tubes, strips and sections of lead ..	Ditto.
8. Tubes, strips and sections of lead	Ditto.
9. Bars hard-drawn or annealled Electrolytic Copper wire and Cables A.C.S.R.	Ditto.
10. Copper Sheets	20% Ad Valorem on British Manufactures and 36% Ad Valorem on Non-British Manufactures.
11. Pipes & Tubes of Copper ...	Ditto.
12. Copper rods other than Electrolytic copper rods.	35% Ad Valorem on British Manufactures and 45% Ad Valorem on Non-British Manufactures.
13. Rods & Wires of Brass	35% Ad Valorem.
14. Electrolytic copper rods ...	25% Ad Valorem on British Manufactures and 30% on Non-British Manufactures.
15. Rubber Insulated cables ...	7½%.
16. **Antimony**	30% Ad Valorem duty on refined metal and 20% Ad Valorem on Crude Antimony.

17. Aluminium ... ... 30% Ad Valorem duty plus a specific duty on ingots, sheets, strips and circles. In the case of ingots Rs. 328/- per ton, Rs. 237/- per ton, and Rs. 146/- per ton during the years 1949-50, 1950-51 and 1951-52 respectively and on sheets and strips and circles, Rs. 121/- per ton, Rs. 46 per ton respectively for 1949-50 and 1950-51 with no specific duty at all on imports of sheets and circles during 1951-52. Besides the above, the Indian Aluminium Co. and the Aluminium Corporation of India Ltd. have been granted subsidies as follows :—

Indian Aluminium Co. Ltd.:—

Rs. 330/- per ton on all sheets and circles of the company during 1949-50.
Rs. 230/- per ton on all sheets and circles of the company during 1950-51.
Rs. 130/- per ton on all sheets and circles of the company during 1951-52

The Aluminium Corporation of India Ltd. :—

Rs. 710/- per ton on all sheets and circles of the company during 1949-50.
Rs. 610/- per ton on all sheets and circles of the company during 1950-51.
Rs. 510/- per ton on all sheets and circles of the company during 1951-52.

While on their Ingots it would be 900, 825 and 750 rupees per ton during the respective years, the rates of duty and subsidy are based on the landed cost ex-duty of aluminium ingots being Rs. 1,275/- per ton and of 20 gauge circles being Rs. 2,614/- per ton and are liable to suitable adjustments if these prices should vary. The assistance is to be operative for three years and the subsidy is to be met out of the additional revenue that is expected to be realised from the enhanced duty that will be imposed on aluminium ingots, sheets, and circles.

IV. *Comparative duties in the U.S.A. & Australia*

The duties that are now proposed compare very favourably with most of the protective duties enforced in countries like the U.S.A. and Australia and should by such standards be regarded as being low. The rates of duty in the U.S. according to the Tariff Act of 1930 and the Trade Agreements worked out for copper to nearly 2 cents per lb. while the corresponding duties on lead range from 3/4 cent per lb. in the metal to about 1-1/8 cent a lb., on items like sheets. Besides the above, the United States usually has been protecting the metal industry by the levy of an excise tax of 4 cents a lb. on copper—reduced to 2 cents a lb. by the Geneva Trade Agreements and which is, however, now suspended until June 1950. Similarly the duty on Lead Ore, Concentrate sand Pig Lead has been suspended as also the duty on Aluminium, Magnesium and Zinc scrap as well as Zinc dross and skimmings until June 30, 1950. During the war *i.e.* from August 12, 1941 to the close of War, American Copper prices were pegged by the Government at 12 cents per lb. delivered Connecticut Valley with cost plus contracts arranged for all producers unable to meet this price. On February, 1942 the premium plan was inaugurated under which quotas were set for various producers and 5 cents per lb. added to the 12 cents for all production exceeding the quota through a Government agency known as the Metals Reserves Company. Later an additional premium of 15 cents per lb. was added to the smaller mines. The over-all result of such measures has been that the ceiling for copper prices was maintained at 12 cents per lb. but the average price paid to Producers during 1942-45 varied progressively from 12.25 cents per lb. to 13.75 cents per lb. The Government during the war also controlled the procurement of metals from abroad paying any differences between the ceiling price fixed within the country and the Government's own purchase price.

Alongside of the Australian Tariff Schedule also the Indian Tariff is indeed very moderate on metal items. A complete list of the duties on different metal items prevalent in Australia has been given by the Indian Tariff Board in its report on the Non-ferrous Metals Industry published in 1946, and is not for that reason again detailed here. Most of the duties in the General Tariff in Australia are specific duties except in a few cases where there are *ad valorem* duties twice as high as or even more than twice of the Indian *ad valorem* duties. For instance, in the case of paper or Cambric insulated cables the duty in the Indian Tariff Schedule is 30 per cent. while the general Tariff in Australia is 45 per cent. Similarly on brass circles and strips in Australia there is a 50 per cent. duty against a duty of 30 per cent. *ad valorem* in the Indian Schedule. The duty on Copper rods is 50 per cent. against a duty of 35 per cent. *ad valorem* on all British Manufactures and 45 per cent. *ad valorem* on all Non-British Manufactures in India.

V. *An estimate of the assistance available during the war and later under the Protective duties*

The assistance available to the Industry during the War and later has been in the nature of facilities for the import of necessary plants and equipments into the country, the bringing in sometimes even of personnel, the supply of raw materials from Government depots during the war besides the supply of power and fuel at fixed rates, the planning of Government orders on the factories during the war period and the natural protection afforded during such time by the closure of import channels. The actual assistance which the Industry has derived from the duties which have been imposed is not possible of being correctly assessed yet, for the imposition of such duties coincided with restrictions on licensing of manufactures and semi-manufactures arising from considerations of foreign exchange. Further, in most cases the protective duty merely sanctified the existing position by the conversion of the revenue duties into protective. As against this must be kept in view the fact that during the war the prices paid to the manufactures and semi-manufactures were always fixed prices—in the case of a company like the Indian Copper Corporation these prices were below the world price and naturally deprived the Corporation of reserves which it would have been able to build up in the case their production had been sold at world prices. The import of plant and equipments in the exigencies of war and at inflated prices which worked to 200/300 per cent. of pre-war prices has necessarily told on the capital structure of the Indian metal Industry and to some extent affected its competitive power in relation to foreign manufacturers who had purchased plants and installed them at pre-war prices. The recommendation which was made by the Indian Tariff Board in all these cases that plant and capital equipments imported into the country for the purpose of replacements and modernisation of the factories should be duty-free was not implemented although after protected delay and after a good deal of equipments had already arrived in the country, the duty was lowered from 10 per cent. to 5 per cent. on plants to be brought in the future.

VI. *Broad aspects of the present policy where it has failed*

Having given a brief description of the development of the metal industry so far in the country and the manner in which it is protected today it is appropriate to focuss the attention of the Commission on the directions in which the Tariff Policy as applied to this industry has fallen short of the Industry's requirements and expectations.

(a) Method of Examination by the Board and action by the Government not very much different from discriminating protection.

Fundamentally, the method of examination by the Tariff Board and the implementation of these recommendations by the Government have not been different from the policy of discriminating protection which was laid down by the previous Fiscal Commission. It is the considered view of my Committee that the exigencies and opportunities war and the closure of import channels consequent on the country's general adverse balance assisted the industry more substantially during these years of its origin and growth than the halting policy of protection chalked out so far. For instance, with a better appreciation of the importance of the industry in

the defence of the country and its usefulness to other industries as the supplier of materials necessary for their up-keep and maintenance, the recommendations of the Tariff Board to allow duty-free import of capital equipments and machinery should have been immediately implemented. It is also appropriate to record here that although the Tariff Board submitted its reports to the Government on the different sections of the Non-ferrous Metals Industry on the 6th October, 1946, it was not until 11-6-1948 that the Government of India announced their decision on this report. The Government notification implementing these duties was issued still later. The period of protection which had been indicated to be covered by this Board was a three year period ending with the 31st March, 1950, so that as things shaped by the end of March, 1950, the duties would have been in force for less than a year and a half. In the same manner, the case of the aluminium industry for protection was reported upon by the Tariff Board on the 20th June, 1946; but the Government's decision on the report was not available until the latter half of May, 1949. This shows that the sense of urgency which is necessary in the examining of cases for protection and the taking of executive action on the recommendations of the Board was not present in deciding on these cases without which the necessary atmosphere for large-scale industrial development of the country could not be created. Similarly, while interpretation of conditions attached to the grant of protection have no doubt been somewhat more liberal in the case of the interim Tariff Board appointed after the last war, it has also in its work been functioning to a large extent in the same spirit as animated the previous Tariff Boards in the country. It is the view of the Committee of the Association that although watchfulness will be necessary on the side of the executive to make sure that protection granted to the Industries is fully utilised by it for its future development, the grant of protection itself should be adequate and liberal in all cases where there is a *prima facie* need for protection. In fact in such cases, it would be necessary to protect the industries straightaway and to conduct a more detailed enquiry only in case the measure of protection extended should be regarded by the industry as insufficient. The conditions for the grant of protection like those which require that the industry should be established and conducted on sound business lines, that having regard to natural or economic advantage or its actual or probable cost it is likely to develop in a reasonable time sufficiently to be self-supporting, and that it is an industry which it is desirable in the national interest to grant protection or that the probable cost of such protection will not be excessive, still carry the trails of the previous Fiscal policy which aimed at finding a justification to keep the industrial development of the country in a nascent stage. What is required instead is an unequivocal assurance that in the interests of large-scale industrialisation of the country any new industry which is important to the national economy would be protected straightaway and to a generous extent.

(b) Non-Fiscal Measures neither sufficiently assessed nor implemented.

Apart from protection by Fiscal or Non-Fiscal measures, the development of this industry calls also for an active mineral policy, the exploitation of hydro-electric power on a large scale, facilities for inducing the inflow of increasing quantities of virgin metals and scrap in which India is deficient etc. Industries like the Aluminium Industry which required substantial investments even to start with may have to be assured of adequate protection, if they are to be started at all. The building up of Industrial Research Institutes and Statistical Institutes must also be a part of the policy of assistance to industries in the future. The half-hearted character of protection extended even to the metal industries of the country may be made clear by a reference to the great amount of discussions that took place at the meetings of the Tariff Board on the question whether the secondary metal industry (alloy and ingot making, utilising scrap metal arising) in India should be protected or not and the subsequent decision of the Government that a token duty of 10 per cent. on the ingot brass should be considered sufficient for the establishment of a Scrap Refinery industry in the country. Most industrially advanced countries lay great store by refinding of scrap, as a measure of conserving metal supplies. As will be clear from the measures of protection

extended for the Aluminium Industry in the country even the modest recommendations of the Tariff Board were substantially revised by the Government. This was so also of the first enquiry held over the Antimony Industry by the Tariff Board in 1946. Non-Fiscal measures like the payment of subsidies, the giving of tax-reliefs, the import of plant and machinery duty-free, etc., which were recommended by the Tariff Board did not receive the consideration from the Government which they deserved nor measures like the reduction in Railway freights, etc. The practice of computing permissible cost of production has not been satisfactory and has not been conducive to inviting fresh investments in such large-scale industries. In sum therefore the spirit underlying the enquiries conducted by the Tariff Board and the recommendations made on the same by the Government although more liberal than in the past has nevertheless fallen short of what is necessary to create what may be called an industrial climate in the country. Remembering that India has not, unlike the West, passed through an Industrial Revolution which gave the main fillip to more and more industrialisation there, it would appear that even the laying down of stated criteria to determine the eligibility for protection for industries would be extremely ill-advised. Instead the industries which are set-going must be given all possible facilities for their establishment and growth during the coming years based on *ad hoc* summary examination of their needs and difficulties. Natural or economic advantages have come to be more and more understood as accidents of geography. In any case, different economies today are inter-locked and changes in the political set-up of countries may substantially alter the position regarding the availability of raw materials and efficient labour, while technological advances are increasingly discounting the above advantages, under the circumstances, it would appear that the wise course would be to foster all industries that are possible of being built up in the country, taking care only to see that they are least competitive as among the different countries of the Asian Bloc and that they are such as would be able to draw most of their raw materials and machinery requirements from countries whose relationships with India have not on present showing, much chance of deterioration in the event of war.

VII. *Directions in which the Tariff Policy adopted towards the Non-ferrous Metals Industry has not been satisfactory*

Having indicated generally the spirit that should underline the policy of the Government in the Fiscal policy that it may follow in the future years it remains now to examine under certain broad and specified headings the directions in which such policy as adopted to this Industry in the past has fallen short of its expectations and its requirements.

(a) Method of Profit Determination and Cost-Examination.

The first in importance which occurs in this connection is the method of profit determination and cost-examination adopted by the Tariff Board. As briefly cited before, the method of such 'examination has had necessarily to be rough and ready and must be so in future but in the process it often erred on the side of rigidity. The usual method that is followed by the Tariff Board is to determine the fair selling price of the indigenous producer based on what is considered to be reasonable cost of production in the present and in the future and allowing 10 per cent. profit on the block capital and 4 per cent. on the working capital. The fair selling price thus arrived at has necessarily been arbitrary. It did not reflect the cost of production existing at a given moment of time and for a stated output but arrived at something which was somehow ascertained to be a reasonable cost in case the available machinery worked to its full capacity. This was set off against what was surmised to be a reasonable cost of production in the future, *i.e.* during the period for which the protective measures were being formulated, having regard to possible improvements in the installations of machinery, technological advances etc. generally the expansion of capacity for production. The average thus arrived at on two such figures, themselves hypothetical, was necessarily bound to be not the cost of production at a given moment. In doing this, the Board prejudged the issue which it had been called upon to adjudicate. In other words. even if the cost of production of what was admitted to be an economic unit under given conditions was higher than world parities through some rough

and ready reckoning it was decided that the cost should not be above a stated figure even at the output mentioned. On this basis, the measure of protection which may be allowed was decided upon.

In the case of the Aluminium Industry the Tariff Board departed from its previous practice of allowing 10 per cent. on the block and 4 per cent. on the working capital merely for the reason that the total invested capital in the industry was huge and that at the rate they had sanctioned for other industries the protective duties may have to be very high. This is in contrast to the observations of the Board in the case of the Antimony Industry where they felt that a profit of 10 per cent. on the gross block and 4 per cent. on the working capital could not be considered excessive in the conditions existing with the investment involved and the high charges of income-tax and company-tax prevailing. They, therefore, allowed the profits on the cost of production as ascertained by manufacturing charges, cost of raw materials etc. In the final, the figure assumed by them would have yielded only 2½ per cent. on the invested capital which they considered should satisfy the industry during the period it was struggling to establish itself.

A policy of this nature cannot be conducive to promoting new investments in heavy industries requiring substantial outlay. Besides, depreciation must be allowed at the replacement cost of the plant in such cases and not at its original value. A rate of 2½ per cent. on the invested capital it has been pointed out to us, is much less than the rate charged by even the Reconstruction Finance Corporation from industrial concerns.

The rates of subsidy and the specific duty recommended by them were substantially revised by the Government of India after a further enquiry by a Technical Committee with the result that the protection today to the Aluminium Industry is in some directions even less than which had been available to it under the Stop Gap Pool Arrangements. Further, by the delay that ensued between the recommendations of the Board and the announcement of the Government's decision thereon, many of the costing figures accepted by the Board became even more inappropriate as in the meantime the Alumina Plant of one of the companies had come into production upsetting the Aluminium cost worked out by the Board and freight charges, the cost of hydro-electric power and the cost of labour had substantially increased. This emphasises, in the view of the Committee of the Association, an important aspect of the Tariff Board's working in the recent past. The establishment of heavy industries like the Aluminium Industry which requires substantial investment funds would not be facilitated under an arrangement where the Government are not able to offer more than 2½ per cent. return on the block capital invested and which too remains on paper. It is quite likely that during the period of protection the two companies would both incur substantial losses. In the case of the Iron & Steel Industry which is an equally big heavy industry involving considerable investment, the Tariff Board had allowed 8 per cent. on the block capital. The rate allowed to the aluminium industry, has it is considered, had a direct bearing on the slow progress and the gradual failure of the National Aluminium Company a third venture which was promoted under Government blessings and which is now perhaps again to be resuscitated by the Government. The Tariff Board's scheme of protection to the Aluminium Industry was based on a specific duty and subsidy on the Ingot production. This was essentially sound, in as much as it aimed at fostering the basic ingotting industry in India as the first in importance in the establishment of the country's Aluminium Industry. The Government of India by backing on the Rolling Industry to the scheme of assistance did put the wrong emphasis—for the natural tendency would be to invest in rolling mills and not on reduction works.

In the compilation of cost, due consideration should be given to the fact that the factories in India are much smaller than those in other countries like the U.S.A., Canada, or Switzerland which are working with a smelter, or rolling capacity of hundreds of thousand of tons. The biggest smelting capacity of companies like the Copper Corporation, the aluminium companies or the Lead Corporation would be considered fractional alongside of that of their foreign counterparts and even such capacity they are not often able to utilise in full.

Further, it is also appropriate that in assessing the burden of protection adequate allowances are made for the wages distributed in the country by a protected industry and the subsidiary occupations that are created.

In the metal industry there are also different sections some of which may not lend themselves freely to reliable cost-accounting as for instances the alloys and castings manufacturing section where one and the same factory would normally be engaged in the production of a wide range of items. Under such conditions the method of costing adopted by the Tariff Board becomes a severe handicap to the indigenous industry.

(b) Instances where Government action on the Tariff Board's Report has been with reservations.

A second important point in respect of which the Association would like to make some comment is the manner in which the recommendations of the Indian Tariff Board have been acted upon by the Government. There are many instances where such recommendations have either been completely overlooked or substantially whittled down. For instance, the Tariff Board had proposed, in the case of brass and copper sheets, that provision should be made to adjust the duty automatically so as to maintain the Tariff value of imported brass sheets at the figures assumed in the Report throughout the period of protection. This recommendation was not accepted as the Government held that the Tariff value could not, on principle, be manipulated to protect the Industry and that in case disparity arose it would be open for the Industry to approach appropriate sources for necessary action. Another important recommendation made in regard to this industry in all different sections was, as already explained, that the plant and machinery imported for purposes of replacement and expansion should be allowed duty free. In view of the fact that this was an Industry of war origin which had been working mostly with improvised equipment and that the cost of new equipments had risen nearly 300 per cent. of the war figures, it was expected that the above recommendation would be implemented without reserve. However, a decision on this matter was delayed for a very long time and was not available until a year ago when it was decided to remit half the duties in force on such plant and machinery in respect of all equipments imported into the country in the future. No claim for retrospective effect being given to this in respect of plant and machinery which had been landed in the country in the meantime was allowed so that the Industry was deprived of the advantage, only because this recommendation of the Tariff Board was considered and decided upon after considerable delay. This spirit is in sharp contrast to the practice of other countries. Even recently, it has come to our notice that a Government, like the Salvador Government have allowed completely duty free import of cement machinery until the year 1965 to enable local and foreign capital being invested in this Industry and the same being developed in a speedy manner. In some cases, as in the instance of the manufacture of zine and lead sheets, the Tariff Board recommended the reduction of even the existing Revenue duty from 30 per cent. to 20 per cent. even though there was not much of an expressed demand for this from the consuming industry, and thereby surrendered considerable revenue merely on the ground that production in India was not yet on a large scale. While this could have been considered valid reason for maintaining the duty as it was, the view that the Board took is difficult to be understood, especially because the Revenue duty of 30 per cent. imposed for revenue considerations had not been pointed out to be as serious disability by the industries using these sheets themselves. In the same manner, the Government have sometimes been ignoring certain recommendations made by the Board from the point of view of facilitating future development as in the case of recommendations which they made that a rebate should be allowed in excess of the 30 per cent. duty on the rods imported by the Aluminium Industries Ltd.—a company then only being set up—for the manufacture of aluminium cables.

(i) Automatic adjustment of duties.

(ii) Exemption from import duty of Imported plant and machinery.

(c) Cases where Revenue duties on Manufacture were reduced without any demand for the same.

(d) Draw-back of duty on Aluminium rods for the Aluminium Industries Ltd. refused.

The Government held that this concession need not be extended then and that Aluminium Industries should approach the Government when fully established for any such concession when their case could be considered, "on merits".

(e) Protection as recommended by the Tariff Board for the Aluminium Industry and as enforced by the Government.

. Even in respect of the measures recommended by the Board, the decisions of the Government have not always been without reserve. In the case of the Basic Aluminium Industry the Tariff Board recommended assistance by a specific duty and a subsidy. The Government after considerable consideration of this Report appointed a further Technical Committee to examine the recommendations and then decided that the industry should be protected by an *ad valorem* duty of 30 per cent. and a specific duty and a rate of subsidy which were considerably less than the rates recommended by the Tariff Board. By the time that these decisions were reached, the period of protection for which the Tariff Board's proposals had been framed namely the years, 1946—49 had already lapsed and a modified measure of assistance was made effective only from the middle of May 1949. A detailed statement showing the difference between the assistance which would be available to these two companies under the Pool, the original recommendations of the Indian Tariff Board and what is now actually available under the Government's decision is enclosed. This would be a sufficient testimony to the fact that in its attempt to reduce the burden on the consumer, the Government have cut down the measure of assistance to the bare need thereby putting it in a very great difficulty for the existing company to carry out its programmes. It would have been appropriate for the Government to have considered in this connection that the higher cost of the aluminium companies in relation to their foreign rivals is to a large extent due to the unbalanced plants they have had to put up under the stress of war, often under constant pressure from the Government to do so. In the case of the Indian Aluminium Company, for instance, the Rolling Mill was the first to be put up; then the Reduction Plant at a site considerably distant from the rolling mill and lastly the Alumina Plant. The working of the reduction plant to its full capacity is not possible owing to the restrictions of power supply with the result that the Alumina Plant also has to be kept at a considerably reduced output. In the case of the Corporation, while the alumina capacity is about 6,000 tons the reduction capacity is only 2,000. While they have not yet sizeable rolling capacity they are also using costly thermal power which increases the cost of reduction. Against an estimated cost of 1 anna per unit of power, the present cost now of power to them is about 8 ps. per K.W. The important point that arises from these is that while the factors which contributes to their higher cost of production against the foreign rivals has been set off against the two companies, no allowance has been made in view of the fact that in the very nature of the demand made on them by the Government during the war, their plants could not have been more balanced of economic. Instead, the severe calculations made by the Tariff Board have resulted in depriving this heavy industry of its ability to forestall possible rate wars and dumping from more industrialised countries like Canada, the U.S.A., Germany, Switzerland and Japan. Even the cost of imported Alumina assumed or economic. Instead, the severe calculations made by the Tariff Board have the cost of labour, power and transport has increased demonstrably in common with many other industries of the country.

(f) Proposal for the setting up of an Aluminium Development Board.

In recounting the number of recommendations where even the modest recommendations of the Tariff Board were by-passed by the Government, mention must be made of the proposal which the Board had made in regard to the Aluminium Industry for the formation of an Aluminium Development Fund, out of the balances anticipated from the yield of the duty after paying the subsidy to the two main producers. The Government held that it was not necessary to constitute the Fund for such purposes. Exploration prospecting and the proving of ores, especially in the nascent conditions of industrial development of the country today have been assigned by the Tariff Board to be distinct functions of the Government whereas the Government had decided these must be the role

of private industry and that very little indeed could be done at the Government's initiative.

In the method of working out the details of subsidy, it is understood that the subsidy is being paid on the total sales and not on their total production as recommended by the Board.

(g) Payment of subsidy of sales.

This naturally implies that stocks carried over from one year's production into another would be receiving the subsidy at a lower rate than specified. It has been the experience of the companies during the time of the Pool's functioning that there was considerable time lag between production for the Pool and the final disposal. Yet another recommendation made by the Tariff Board was the reclassification of metal items in the Customs Tariff Schedule under an appropriate main heading so that there would not be chances for the duties that are prescribed to be circumvented.

(h) Reclassification of Metal Items in the Indian Customs Tariff Schedule.

Executive action in respect of this has either been held up or not considered necessary at all with the result that items like valves, cocks, and fittings, etc., are coming in at a lower rate of duty declared as machinery parts or pipe fittings while certain others like electrolytic manganese which is a necessary virgin metal is not obtaining the benefit of the duty free import by its being classified as manufactured material. In the same manner there are difficulties in import of scrap into the country for even though scrap imports are duty free, the absence of a definition regarding scrap results in rejections and misfits which are imported as scrap being not allowed to be cleared. In this manner, the advantage which the industry might otherwise get under the Board's recommendations is denied. The idea of building up a strategic stockpile has similarly been recommended by the Board. It becomes important to an industry whose raw materials lie scattered out of India and whose chances of supply in the event of war may be jeopardised.

(i) Building up of a strategic stockpile.

The United States even though she is the biggest producer and the consumer of these materials has nevertheless been building up an appreciable stockpile. By virtue of her position as both the biggest producer and the biggest consumer of metals in the world the U.S.A. sets the pace to world metal prices. In the context of this, it is all the more important to have a proper stockpile which would be a safeguard against scarcity conditions in an emergency. Finally, orderly disposal of surplus stocks by the Government has been recommended by the Board so as not to compete with the Industry but the manner of disposals noticed so far has both been chaotic and disorderly and has frequently upset the Indian market especially so in new items of manufacture like rods, bars, and other sections of brass and copper. The Magnesium stocks held by the War Assets Administration in America were taken over to the strategic stockpile to facilitate the working of the Magnesium Company there.

(j) Orderly Disposal of surplus stocks.

VIII. *No safeguard against dumping*

The assistance so far extended to the Metal Industry in the country has been formulated only from the point of view of normal competitive conditions and has not been visualised to safeguard against dumping. Recent quotations which have been received from Japan for the import of brass sheets and circles as also for aluminium sheets and circles from Japan and Switzerland indicate that these may very nearly fall into the category of dumping. Instances of this kind should be subjects for immediate executive action as and when they should arise and cannot in the nature of things be subjects for a long drawn out and exhaustive tariff enquiry.

IX. *Need for quota restrictions in regard to imports.*

There are also instances where quota restrictions may be necessary as in the case of lead sheets. In the case of lead sheets most of the consumers would be able to do very well with 3 ft. wide sheets of indigenous manufacture. In spite of these, if materials are imported into the country they could prejudice the indigenous manufacturers, as most of these are utilised in small quantities by the consumer to whom the price itself would not be a major consideration.

Similarly in the case of alloys there is sufficient capacity in the country and a total import restriction would be necessary. Further, the expansion of the capacity that has taken place in countries like Canada, Switzerland, Japan and Germany for metals like aluminium make it very probable that they may attempt to off-load in India materials at cost or less than cost only for the facility of providing additional tonnage to their works.

X. *Effects of an ill-conceived Railway Rate policy on protected industries*

An unfavourable railway rate structure can certainly deprive the industry of many advantages which it may otherwise derive from measures of carefully formulated assistance. Generally, the drastic revision of rates involving the abolition of many concessional rates recently has raised the freight burden on the metal industry. About 5 tons of ore are necessary for the production of one ton of refined metal in aluminium. Calculated on the basis of total raw materials, it will be 9 to 10 tons. If, therefore, the haulage of the ore or other raw materials becomes costly, the cost of production of the metal would necessarily be affected.

Under the Old Pool System, aluminium ingots were delivered F.O.R. destination, freights being met from the Pool Account. As between the rates in force for aluminium ingots before 1-1-48 and later with effect from that date, it is found that from about Rs. 99.5 as per ton of aluminium ingot produced by the Aluminium Corporation it rose to about Rs. 129-15-0 per ton for delivery at Bombay. Similarly, even on bauxite the charges have increased. The cost of the bauxite at Smelter was taken by the Tariff Board at about Rs. 15 per ton; but since the revised rates have come into force the ore to the Corporation at its site costs between Rs. 18 per ton to Rs. 20 per ton. Between the 1st of January, 1948, and the 1st of October, 1948, the rates for Bauxite rose for the Corporation from as. 4 ps. 6 per Maund to as. 5 ps. 2 per Maund over and above the as. 2 surcharge per rupee, the burden from which also correspondingly increased. The railway administration to whom this matter was represented held that the increase merely represented the absorption of the surcharge into the basic rate; this, however, is objectionable as it made the surcharge levied on exceptional and emergent consideration a permanent fixture. The Tariff Board's recommendations that all factors which retard the attaining of low cost of production for aluminium should be eliminated has certainly been violated in this instance.

The Indian Aluminium Company similarly in tendering evidence before the Board gave certain comparative figures for the movement of aluminium in India and Canada, which are elucidative. Over one ton of ingot produced, 9 to 12 ton miles of raw materials and semi-manufactured goods are to be moved. On this basis the comparative figures in India and Canada were mentioned as below; but these have become out of date after the last freight revision in India and in the absence of information regarding the present rate position in Canada, we are not able to make these figures up to date :—

Freight in pies per ton mile.

	India	Canada
Aluminium Ingots	11	2·9
Aluminium sheets and circles	5·5	3·5
Bauxite	1	9·3
Alumina	1	4
Petrolium coke	4	2·9
Pitch	9	4·6

The freight rates paid by the Aluminium Corporation today are :—
Freight in pies per ton mile.

Aluminium Ingots	25	
Aluminium sheets and circles	25·9	Pitch
	20·6	
Bauxite	9·3	
Petrolium coke	4·6	

In regard to the Lead Industry, another anachronism in the matter of railway rates came to light. If the lead ore is brought from Rajputana to the Smelter at Dhanbad for smelting—a distance of about 1,300 miles—it cost only Rs. 45 per ton of refined metal computing 1½ tons of concentrates to be moved for one ton of metal. If, however, it were refined in Rajputana and brought to Dhanbad it would cost Rs. 67 per ton for the refined metal. While on principle the finished material must bear a higher rate the Industry must be able to avail of concessional rates to distribute its output.

In the first enquiry which was made into the claim for protection to the antimony industry it was again found that transport charges by rail alone worked out to nearly 7 per cent of the total cost while rail transport along with methods of transport other than rail was in total accounting for about 66 per cent. of the manufacturing charges.

The instances which have been cited above will bear out the fact that a railway policy which is not properly conceived can largely negative industrial development for which assistance is extended by means of duties, subsidies, etc.

XI. *Importance of the supply of cheap electric power in the development of Metallurgical Industries.*

The supply of cheap electric power has come to be an important auxiliary in any policy of industrial development. The reason for the establishment of the Indian Aluminium Company's reduction plant so far away from their smelter and their rolling mill was merely the availability of electric power in the South. It becomes imperative therefore that large hydro-electric schemes which have been contemplated are given the first priority. The following table gives some relative idea of power costs in the world :—(All hydro-electric).

Canada	·044 to	·066	anna per K.W.H.
Norway	·044 to	·066	Do.
Sweden	·044 to	·066	Do.
Travancore State	About	·154	Do.
Damodar Valley (Estimated)	About	·20	Do.

XII. *Tariff Board's Method of ascertaining the cost of production of the foreign manufacturer unsatisfactory*

Yet another consideration in regard to which the Tariff enquiry as now conducted may not be satisfactory is in the method that is followed for ascertaining the cost of production of the foreign manufacturer and the landed cost of imported materials. As is well known, it has not been possible in most cases to ascertain the cost of production abroad. The Tariff Board invariably had to be working out some hypothetical figures from the available quotations for imported materials by making suitable adjustments for insurance, freight, manufacturer's profit and other items. The Agent's Commission normally remains an undisclosed entity and there is no method of making sure that these are not such as to permit of imports cutting through the highest of tariff duties by effecting some sizable economies therein. While appreciating the difficulties which the Tariff Board were faced with in estimating such cost of production, it becomes nevertheless imperative to attempt in future, to have a fairly reliable idea of the manufacturer's cost in the competing countries. It would also be worthwhile to study in such cases if any kind of export bounty is operative in these places.

XIII. *Importance of the secondary Metal Industry.*

In view of the comparative cheapness of imported brass ingots in India it was contended that ingots and scraps should be duty free. The fact that the question, as to whether the secondary metal industry was necessarily a branch of the Non-ferrous Metals Industry was debated by the Board, shows the Board's restricted angle of approach to a most important subject. The secondary Metal Industry is vital to a metal poor country and should be fostered. Its raw material to scrap, its product ingots, and the two subjects should not be confused.

XIV. *Need to safeguard against international cartels and combinations*

Any policy of Industrial Development that is pursued should provide adequate safeguards against the operation of combinations and cartels which may be existing abroad and which would reinforce the competitive power of the foreign manufacturer. In the pre-war days there was a powerful cartel operating in Aluminium known as the Alliance Aluminium Co. of Basle. This was set up in 1931 for a period of 99 years to fix quotas for production, among its members and is understood to have been dissolved during the war. Sometime ago it had been stated that the Aluminium Company of Canada had been charging preferential prices for its Aluminium sent to the U. K. as against India, but this too has had no method of verification. It is pertinent to point out that at present America and Canada between them produce about 1½ million tons of Aluminium a year while all the other countries together only 1 million tons. This will give an idea of the competitive power the Industry outside has as against the Indian aluminium industry and if any central organisation among them should materialise, the aluminium industry in India would have serious difficulties.

In regard to copper, the main supplier of copper to India is the Mesina Transval Development Co., of Rhodesia in which the U. K. has dominant interests. This has often meant that in the matter of obtaining copper from Rhodesia the U. K. and the U. K. companies operating elsewhere would have first periority. Since the commencement of bulk purchase activities by the Government of the U. S. and the U. K. for purposes of their strategic stockpile they have acquired—especially the U. S. Government—very considerable powers for regulating the activities of the world metal markets. In fact the U. S. A. as both the largest producer and the largest purchaser of essential virgin metals exercises controlling powers over the metal markets and New York has come to set the pace for world quotations in metals.

This reached indeed such a peak that by virtue of the large reserves held of tin in the strategic stockpile, the U. S. Government were able to influence tin prices the world over and to force the Malayan producers to keep their prices pegged to a level approved by them.

In the case of Copper, upto January 1937, there was an international cartel of most of the copper exporters and later as an organisation of the U. S. low cost producers concerned professedly with elimination of middle men, the preventing of manipulation and the stabilising of prices. Restrictions on output were removed in 1937 when prices began to rise and with the condition that if prices should fall these restrictions may resume. Copper prices since then have risen strikingly except the very unanticipated collapse they have had between the middle of March and the middle of September the year. We do not therefore know if an arrangement like this exists now. In the matter of lead also the U. S. producers in 1931 did arrange to cut down production and regulate output but this cartel was short lived; it was however understood that the International Zinc Syndicate was functioning even later. The present position of this too is not known but in view of the relatively unsatisfied demand for most metals they may not perhaps be immediately operative. The International Tin Committee which started with the blessings of the Governments of the producing countries and has been functioning since is a Cartel too—though during the war it became increasingly concerned with allocations as it had very little of production as its disposal to restrict. The Committee is trying to transform itself into a Tin Study Group which would only be a more polite designation for covering the same activities.

The existence of Cartels and Pool Arrangements at an International level is a matter which must concern the Government of India very much and must therefore be investigated into thoroughly. It becomes all the more important in an industry like the metal industry where a considerable part of the raw materials required by the country have to be imported and where the control of the production of virgin metals through Cartel-Organisations would necessarily set a limit on both the quantity of materials that would be available to India and the prices at which the same could be purchased. More than this, it would also set against the protected industry of the country, the organised

competitive power of many international organisations of the metal industry which are assembled at a much bigger financial investments and more up-to-date technological skill. It would thus defeat to a large extent the effective strength of any protective measures that may be implemented in the country.

XV. *Importance of Non-fiscal Measures*

In an industry, like the metal industry while tariff assistance has necessarily very great importance for its development, an even more desirable form of assistance would be the initiation of measures intended to make the country self-sufficient or nearly self-sufficient in regard to its supplies of virgin metals, the installation of equipments, the organisation of statistical research, and the carrying out of technological studies and vocational training. The steps recommended by the Non-ferrous Metals Industries Panel like the formation of a Metals and Minerals Development Board with powers to discuss and decide policies pertaining to development, the export of minerals, the grant of protection and assistance, freight rates, determination of methods by which large industries like the Aluminium or Magnesium industry could be developed in the country, formulation or enforcement of a proper stores purchase policy by the Government—these have largely remained on paper. In fact it is not known what action the Government decided upon in regard to the report which was submitted by the Panel. It would be too unreasonable to expect that an industry like the Magnesium industry, for instance, could be started and developed in the country without the industrial climate as such being made favourable. The present consumption of magnesium in the country is limited—in fact quite infinitesimal, alongside of the consumption of largely industrialised countries like the U. S. and Canada—and Government policy must be concerned primarily with the development of demand of magnesium, indicating to the prospective manufacturers as to what types and what intensity of demand the Government itself could guarantee and generally trying to see that India slowly develops metals industries in regard to which she has ample resources, truly and well. Action on these lines by pilot plant experiment, propanganda, etc., has not been so far contemplated.

XVI. *Need for Co-ordination between Policy and Executive action.*

Similarly, the action of the Executive sometimes frustrates the effect of protection as in a case which was brought to our notice where imported Masonite for Bus bodies was preferred to aluminium despite advantages of cheapness, durability, storage value and heat resistance property of the latter and despite the fact that import of the former from the U. S. A. involved dollar exchange.

XVII. *Industries which may have to be protected even though they may remain uneconomic for long.*

Another feature of industrial development which must engage the attention of the Commission in formulating a proper Fiscal Policy is that certain projects like an Electrolytic copper refinery, or a tin smelter may not be considered economic by accepted standards for quite a long time and perhaps for ever. But from the defence point of view, these are most important national projects; so it is that the U. S. spends through the Reconstruction Finance Corporation very large amounts on her Texas Tin Smelter which depends on Bolivian Ores; that the Argentine is putting up her own tin smelter and that the low grade and already worked out Cornish Mines of Great Britain are kept alive though the prices of the Malayan producers would be very much competitive. The Non-ferrous Metals Industries Panel estimated in 1946 that the cost of plant and equipment for a refinery and plant for production of electrolytic copper of a capacity of 10,000 tons per year would be Rs. 2,16,57,000. At the present level of price, this may be even more. A scheme like this may have therefore to be protected by a duty or a subsidy for a considerable time to come but with so much of scrap arisings in and around India, the blister copper available in African countries and the good will among the countries of the Asiatic bloc that she particularly has, there should not be reasonably any difficulty in feeding such a refinery. This would, not, however, by normal standards of the Tariff Board's reckoning and in the light of the guiding directives laid down

for the working of the Tariff Board, be considered an economic proposition. A bold and active policy of development would therefore be needed here and mere tariff enquiry would be of very little use. The remarks of the recent Australian Tariff Commission that it would be necessary to saddle the community with a permanent protective burden if considered necessary in the national interest is the clue for an industrially undeveloped country like India. In the U. K., a parliamentary Committee reported even recently on methods of assistance to the low grade tin mines of Cornwall although Malayan tin production is soon getting into gear.

Belgium has got a Zinc Smelter which is working on concentrates imported from the Congo while nearly 50 per cent. of the lead produced by the U. S. comes from secondary refining.

The point that is to be made out here is that industries such as these have to be protected even before their establishment. Heavy industries of this character may have to be protected by remission of taxes on profits; production bonuses; draw-back of Customs Duties on imported raw materials, etc. With the facility that is now available for duty-free import of scraps there is already an advantage for an industry of this kind to be set-going.

XVIII. *Stores Purchase policy of the Government and Competition from Government-owned or Government-controlled factories.*

A different aspect of Government policy in regard to which some comment is necessary is the Government's Stores Purchase Policy. Most of the reports of the Interim Tariff Board have stressed the fact that the requirements of the various departments of the Government should be met as far as possible from indigenous production. By virtue of the fact that the Government happens to be the biggest bulk consumer in the market (which is true not merely of India but of all the countries) it is clear that the industry must depend to a very considerable extent on the demands of the Governments. A tendency however has been lately noticed on the part of the Government departments to make themselves self-supporting in regard to their requirements of various metal manufactures and semi-manufactures as far as possible by augmenting of many of their own workshops. The effect of this is to divert the demand which would otherwise be available to specialised units of the private industry to the Government workshops, which are primarily intended to handle defence requirements or railways repairs, and maintenance. The ordnance factories; the dockyards; the factories like the Hindustan Aircraft which are not governed by ordinary principles of commercial costing and have much too heavy plants designed essentially for other purposes and which in times of emergency would not have surplus capacity as now, are not only competing more with the private industry for items which the former is specially equipped to cover but are also contemplating expansion of capacity. Similarly, the purchasing departments of the Governments sometimes attempt to cover their needs from foreign manufacturers, when quotations of the indigenous producer may have been slightly higher, without even caring to ascertain the reasons for such disparity. It is essential to remember that modern industry depends on specialisation and that handling of jobs like these by the Government factories in times when they may not be fully taken up with the manufacture for which they are intended would not be in the interests of integrated industrial development. Competition of this kind has been noticed especially in items like bronze bearings, axle boxes, phosphor bronze ingots, brass and copper extruded rods, bars and sections, sheets and strips, etc.—in fact almost all the items which are manufactured by the indigenous industry. Instead of this, what is wanted is that the Government being a big consumer in the Indian market must purchase from Indian sources and regularly. In fact the antimony industry at present has stated that it would be content with the duty available only if it could be made sure that its entire output could be disposed of and that sufficient supplies of ore to feed their refinery would be available from foreign sources. The inflow of virgin metals into the country must be facilitated by regular and periodical government purchases in the Indian market, so that the metal importers may have the certainty of being able to off-load and replenish supplies in a regulated manner. The meeting of all Government demands from indigenous sources

would also impart stability and strength to the metal markets in India which would grow more and more confident of acquiring adequate virgin metals stocks in the country, with the certainly of having one regular bulk purchaser, at least. It would be an invaluable assistance therefore to the indigenous industry that the demands of the Government are invariably covered from Indian sources. Without this, even tariff assistance would not be greatly helpful.

In the future development of the Industry it is also important to take into account the possibilities of export to the nearby countries. Items like bars, rods, tubes, and other sections of brass and copper as also of brass and copper sheets, strips, and circles; different alloys and castings, etc., are already being produced in the country to an extent which would warrant export. The development of an export market would also enable the industry to produce a bigger output, and thus to bring down its own cost of production.

Certain types of scraps which may not be utilised in the country should also be possible of being exported. This will in turn develop the metal market in India so that India would draw into it not merely metal that would be sufficient for her own use but also to cater to some of the requirements of the neighbouring countries.

XIX. *Government policy in regard to disposals.*

The unregulated disposal of vast quantities of manufactures and semi-manufactures from Government's surplus stock has already affected the development of the industry in its different sections. It may be recalled that one of the recommendations of the Tariff Board was that the pace of disposal of these surplus stocks should be so regulated that production of the indigenous industry would not be interfered with to any extent. All the same, in practice, disposals have been made merely with a view to obtaining revenue to the Government and with the intention of off-loading the manufactures and semi-manufactures held in stock by the Government.

An instance of this kind which may be particularly mentioned here is that of extruded rods, bars, tubes, pipes and other sections of brass and copper. There is only one company in India, namely the National Pipes and Tubes Co., Ltd., which has been put up for such extrusion work at fairly high investment of capital. This company unfortunately came into production at a time when the stocks available with the Government had begun to be liquidated and there were further surpluses being declared in adjacent countries. Such materials have been often selling at a price not sufficient even to cover the raw metal price alone with the result that it has not been possible for the National Pipes and Tubes Co., Ltd., to organise their own production in an economic manner. It is doubtful if they would indeed be able to do so for a considerable time ahead in case such disposals continue. It had been suggested by us, that the Government of India should not dispose of these surplus materials at prices which were lower than the prices of the National Pipes & Tubes Co., Ltd. This, it was felt, was the minimum necessary to enable the company to organise their production and without which the tariff assistance that is available now would not serve much use. The Government, however, have held that the only way for the National Pipes & Tubes Co., Ltd., would be to purchase the materials advertised for disposal, themselves, which would not be a feasible proposition for the company in view of the heavy financial commitments it would involve. This proposition has been considered very carefully by the Committee of the Association who have come to the conclusion that under the circumstances the only practicable step would be for the Government to take over these surpluses to a strategic stockpile keeping them off from the market in the same manner as has been done in America about the entire magnesium stocks rendered surplus at the close of the war. While a measure of this kind may not be practicable as a rule, it is thought that in exceptional instances. Such as now brought to notice there should not be any hesitation in following this policy—the more so as the materials taken into the stockpile would not deteriorate in quality and would retain in value without wide variations. In the alternative, these materials should be disposed of only as scraps after proper mutilation.

XX. *Need for rationalisation of the demand of Government or Quasi-Government consumers.*

It is also noticed that the demands of some of the Government indentors have been expressed for a wide variety of sizes and sections with the result that production to a standardised mass output becomes difficult and therefore the industry is not able too, to take advantage of the economies available from such production. For instance the extruded bars, rods, tubes, etc., used by the Indian railways do cover such a multiplicity of sections and sizes that it would be quite uneconomic for one extrusion press as now exists in the country to be producing each as and when required. At the same time the limited total demand available would not warrant the putting up of more mills just now. The facility which the foreign manufacturers have, of catering to an export market with which they have long and dependable business connections and which in turn enables them to specialise in a great number of sizes and sections being sure that there is an adequate demand for each, is not available to the Indian manufacturers. The installation of an extrusion press in India has been fairly costly and unless the plant is enabled to engage its full capacity by concentrating on fewer standard items, its production may take long to be economic. Thus the rationalisation of sizes and guages of items consumed by the Railways or other Government departments becomes an imperative necessity when the total demand in many items is still limited by the standards of other countries, the capital required for planning on the basis of an export market would be huge and India has to facilitate rapid industrial development. The Association had put up proposals in this regard pertaining to one item of manufacture where we considered it most necessary and so far only the Southern Group of the Rationalisation Committee of the Railways has intimated agreement to certain of our proposals. The idea which the Committee of the Association would like to stress here is that without standardisation of the demand itself in India of the bulk consumers like the Government departments, standardisation of production and the attaining of resultant economies in the cost of production would not be possible in the present stage of the country's industrial development.

XXI. *Participation of foreign technical skill and finance.*

The participation of foreign firms in technical assistance and guidance is necessary even financial investment of such firms need not necessarily be harmful so long as they are governed by clauses intended to rest effective control and management in Indian hands, and to fully train up Indian technical personnel. The danger, however, is real that foreign manufacturers, against whom Indian industries are protected may thus set up their own units in India and take advantage of the Indian consumer or the tax-payer to compete with Indian-owned or Indian-managed industries. So long as this does not jeopardise the country's economy or political status by creating dependence of our government or of our economy on these for supply of either semi-finished materials for processing or highly specialised capital equipments for production, the policy of allowing foreign capital to invest in the country, *i.e.*, as followed by Australia, may with suitable modifications be useful to us. In fact, in such a highly technical and specialised industry as the metal industry, such participation would be an advantage, within limits. Actually an important drawback of our industrial schemes sponsored by our Governments is that they are concerned with increasing production of consumer goods as different from capital goods and raw materials for the industry and that they therefore reinforce our

dependence on the industrialised countries of the West. Nevertheless in an inter-dependent world economy this cannot be totally or even largely avoided. The emphasis should therefore be to build up such relations as far as possible with countries whose political relations with India in the measurable future ahead and in view of present associations and past traditions, may be depended upon to be cordial.

XXII. *Summary outline of the future Fiscal Policy.*

The Committee trust that the foregoing would have conveyed to the Commission the broad outlines of the industrial policy which they have in view to facilitate development generally and the progress of the metal industry in particular. The protracted deliberations of the Tariff Board at its hearings in 1946 to decide on a simple issue if the secondary metal industry was an industry at all; the appointment of a Technical Committee by the Government of India after the Tariff Board had reported to go through its report on Aluminium and the watering down of measures suggested therein, the unwillingness of the Government to admit the need for off-setting duties; the slowness to co-ordinate different policies of the several Government departments; all these and several other factors emphasize the halting and the indecisive type of policy followed so far in regard to industrial development. In regard to the metal industry the policy must have in future be aimed at :—

(a) facilitating the inflow of as much virgin metals and scrap into the country as possible without endangering the indigenous production of either virgin metals or secondary ingots;

(b) emphasising on the ingotting branch of the industry as the base of an integrated non-ferrous metal industry and linking it up with other fabricating sections of the industry in such a manner, that the different sections among them would grow into a single whole;

(c) discouraging the imports of manufactures and semi-manufactures into the country while encouraging those of materials like magnesium not made here with a view to creating a market which may come in handy for an industry to start. In this connection a Central Development Board could do propaganda and enable the popularising of the use of such light metals;

(d) the building up of a strategic stockpile of metals and concentrates we are deficient in and which could come in handy during times of an international emergency and also long period scarcity in metals in the international market to feed the industry;

(e) inviting fresh capital in high-risk industries or projects like the Aluminium Industry, the Magnesium Industry, Copper-Refinery, Tin Refinery, etc. For this various methods shall have to be tried, the Aluminium Co. of Canada which owns and operates the largest integrated plant was allowed a special depreciation to the extent of 40 per cent. of its production costs, to write off the value of the plant. The actual cost of production per lb. of aluminium ingot in 1942, it is reported, was 11.09 cents (inclusive of depreciation) but they were allowed a special depreciation of 5.44 cents a lb. and the metal sold to the U. K. at 21 cents a lb., *i.e.*, double the cost of production realising about 22 per cent. of profit from sales and writing off also the value of the plant. Besides these the War Assets

Corporation of the U. S. Government leased out, the Aluminium Plants built by it during the war at nominal returns or sold them at prices as low as 25 per cent. of the original costs. Canada, the U.K. or Japan have adopted various policies of subsidising their Aluminium industries;

(f) encouraging the prospecting and exploitation of mineral and metal deposits and intensifying research, technical studies, vocational training and statistical compilation at Government initiative;

(g) enforcing of protection for a period that would be sufficiently long and not as passing as a three year period.

XXIII. *Import duties, subsidy and pooling.*

The Association do not consider it necessary to discuss the comparative merits of import duties, subsidies, or pool arrangements as one or the other or several of these together may have to be adopted according to the requirements of each case. For instance, if the Copper price in future should fall, production in India being a small percentage of what the country needs, may have to be fully subsidised. Pooling however being in the nature of a stop gap arrangement not based on established scientific principles and depending on the judgment and assessment of those who administer the Pool cannot give the assurance and stability that are needed to foster industrial development. We do not favour this at all.

For an undeveloped country like India quantitative restrictions are necessary as already pointed out because of the massive output of foreign firms, the unknown percentage of Commission allowed to agents by foreign manufacturers, prejudice against indigenous products despite the quality of these being fully satisfactory, etc.

It is the earnest hope of the Association's Committee that aspects of the industry which have been conveyed to you here would enable the Commission to appreciate the requirements of an integrated Fiscal Policy in the country. The Association shall in due course depute its representatives to tender evidence before the Commission—preferably during its visit to Bombay—in case it is considered that this may be of some advantage.

No. 1.

Statement showing the Benefits available to the two Companies under the Pool System from 1st of March, 1945 *to* 15*th May,* 1949.

(All calculations in terms of Ingot production)

	Ingot Price per ton paid by the Supply Department (in Rs. per ton)				Cost of Import		Pool price o the consumer		Assistance available representing the difference between the cost of import and the price paid to the Producer	
	1945	1946	1947	1948	1945	1946	1945	1946	1945	1946
Indian Aluminium Co., Ltd. . . .	3,182	2,585	2,317	2,317	1,640 (U. K.)	1,640	2,300	2,100	1,709	1,312
					1,470 (Canada)	1,273			1,542	945
Aluminium Corporation of India Ltd. .	3,538	2,850	2,850 (Upto 30th June 1948 raised to Rs. 3,200 for production from 1-7-48 to 14-5-49).	2,850	Do.	Do.	Do.	Do.	1,898	1,210
									2,065	1,577

Extent of burden of the same to the consumer :—

Rs. 660 to Rs. 827 per ton during 1945 for both the companies.

Rs. 460 to Rs. 627 per ton during 1946 for both the companies.

NOTES.—This is calculated separately for ingots landed from the U. K. and Canada per ton. It is likely that if calculated on the basis of the total quantity landed in each year from both countries the figures may show some difference showing that the burden on the consumer was even less.

No. 3.

Statement showing the Benefit available under the present scheme.

(Landed cost Ex-duty taken at Rs. 1,275 per ton against Rs. 983 assumed by the Board).

1949-50					1950-51					1951-52				
Ad valorem duty at 30%	Specific duty	Amount of subsidy	Total relief proposed	Total cost of production	Ad valorem duty at 30%	Specific duty	Amount of subsidy	Total relief proposed	Total cost of production	Ad valorem duty at 30%	Specific duty	Amount of subsidy	Total relief proposed	Total cost of production
INDIAN ALUMINIUM CO., LTD.														
377-1-7	328	330	1,035-1-7	2,310-1-7	377-1-7	237	230	844-1-7	2,119-1-7	377-1-7	146	130	653-1-7	1,928-1-7
ALUMINIUM CORPORATION OF INDIA LTD.														
377-1-7	328	900	1,605-1-7	2,880-1-7	377-1-7	237	825	1,439-1-7	2,714-1-7	377-1-7	146	750	1,273-1-7	2,548-1-7

Extent of burden on the consumer :—

(Being the sum of the two duties)
Rs. 705 per ton during the year 1949-50.
Rs. 614 per ton during the year 1950-51.
Rs. 523 per ton during the year 1951-52.

These calculations are based on a landed cost Ex-duty of Rs. 1,275 per ton, which figure is far too high for recent offers and deducting Rs. 18 per ton for landing etc., as done by the Board although both these are incorrect, as judged by recent quotations available and expenses.

No. 4.

Conversion Charge allowed under the Pool, the Tariff Board's Recommendations and the present Arrangement.

The conversion charge allowed under the Pool was roughly as. 8½ per pound during 1947-48. It worked out to Rs. 1,190 per ton. Later it was raised to as. 10 ps. 3 per pound or Rs. 1,435 per ton for sheets of 20 gauge.

Against this the Tariff Board's own proposals would have given very much less although the pool prices were based on a thorough costing done by the Cost-Accounts Officers of the Supply Department. Under these proposals a conversion charge of as. 4 per pound was allowed working upto Rs. 560 per ton. But in view of the Board's recommendations to keep the same duty on sheets and circles as on ingots and therefore to keep a fair selling price of Rs. 2,450 per ton on sheets and circles, this conversion charge would have risen to Rs. 850 per ton.

The proposals now implemented also fall short of the advantage which was available under the Pool arrangements. The landed cost of 20 gauge circles may be taken at :—

	Rs. per ton
Landed cost Ex-duty	2,615
Deduct landing charge	20
C.I.F. Price	2,595
30% Ad Valorem duty	778·2
Specific duty	121
Landing charge	20
Total	3,514·2
Subsidy to the Corporation	710
TOTAL	4,224·2 per ton

Similarly the landed cost Ex-duty of imported aluminium ingots on the basis of Rs. 1,275 per ton would be :—

	per ton
Landed Cost Ex-duty	1,275
Deduct Landing Charge	20
C.I.F. Price	1,255
Add 30% Ad Valorem duty	376·5
Specific duty	328
Add Landing Charge	20
Landed cost inclusive of duty	1,979·5
Subsidy to the Corporation	900
Total	2,879·5

Thus the rolling charge allowed will be :—Rs. 1,344.7 per ton representing the difference between the ingot price as calculated above of Rs. 2,879.5 per ton and the price of 20 gauge circles working to Rs. 4,244.2 per ton. Against this the Pool arrangement used to give Rs. 2,310 per ton on ingots, and Rs. 3,745 per ton on circles, representing a conversion charge of Rs. 1,435 per ton. The new arrangement therefore gives about Rs. 90 less than under the pool. It may be remembered that the Conversion charge which is accrued to the Aluminium Company would be less on account of the fact that the subsidies payable to them are lower.

It may be noticed from the statements which are enclosed that the assistance which the Aluminium Industry would be getting would be generally very much less than under the Pool Arrangement which was merely a stop gap arrangement and which on principles we do not approve of at all. Certain issues which have not been sufficiently appreciated in introducing the present schemes are :

(1) That the landed costs assumed by the Government and by the Tariff Board have long ago ceased to have any meaning as it is found that Japanese circles are being offered at $593.6 per ton (Long ton of 2240 lbs.) which in terms of C.I.F. Calcutta quotation would come to Rs. 1,977 per ton. With the 30 per cent. *Ad Valorem* duty and after adding to it a landing charge of Rs. 18 and a specific duty of Rs. 121 the circles would be available in India at Rs. 2,173 per ton. This is very nearly the landed cost ex-duty assumed by the Board for Sheets. As, however, a 30 per cent. duty would be levied on the basis of the landed cost Ex-duty of Rs. 2,614 per ton the circles would reach the consumer at Rs. 2,895 Circles of Swiss Origin have been quoted much lower. This shows that the fine limit to which protection has been cut has not been appropriate. The Tariff Board in its report on the Iron and Steel Industry had asked the Collector of Customs to periodically report on the landed prices which is not being done in this case.

(2) Secondly the rate of conversion from ingot to circles analysed from year to year is not commensurate with the actual cost incurred today.

(3) Thirdly under the Pool Arrangements freights used to be paid from the Pool Account whereas now the freight on ingots sold away from the producing centre will be appreciable.

(4) Fourthly, the costs of Production themselves have risen substantially from increase in the electricity charges, increase in labour charges, production to a much smaller output than had been anticipated by the Tariff Board and on the basis of which anticipation they had calculated the cost, the use of indigenous Alumina in all current production, etc. Whereas the Tariff Board had anticipated a fall in the cost of production for one of the companies where their Alumina plant went into production, the necessity to keep down the production of the reduction unit owing to scarcity of electric power at the reduction works and the insufficient reduction capacity have implied higher cost for Alumina as against the imported Alumina. If these had been properly set off by the Government against what they regarded as an increase in the landed cost at the time when they decided on the Tariff Board's recommendation, the final position would have been different. While the Government accepted the assumptions of the Board in regard to the future cost of production they did not consider it necessary to make adequate allowances for these possibilities. The consideration that the rate of protection offered on the sheets may make up any loss in ingot production may not be appropriate.

Before the Pool terminated it is understood that the Corporation had offered about Rs. 3,200 per ton in respect of production from the 1st July, 1948 to the 14th of May, 1949. According to the new arrangement they would be getting only Rs. 2,879.5 per ton, *i.e.*, Rs. 320.5 per ton less than what they were gettin under the Pool.

It is thus clear that the benefits available today would not even be to the extent that they were available when the Pool functioned.

INDIAN CHEMICAL MANUFACTURERS' ASSOCIATION

The Chemical and Pharmaceutical Industry occupies a unique position in the economic life of all the countries of the world and the heavy chemical industry in particular is described as a key industry, as several other industries are dependent on its products. In India, establishment, during the war, of the chemical industry is of great national importance.

Before the last war, the chemical industry was hardly in existence in this country and the pharmaceutical industry had just made beginnings. The question of protection, therefore, under the recommendation of the previous Fiscal Commission did not arise. In the year 1929 however, the Tariff Board examined the claims of the industry as a result of which the Magnesium Chloride industry got protection. The Tariff Board no doubt expressed the opinion that the chemical industry is of supreme national importance to the country and that it would be impossible for them to refuse the claims for protection of the industry on which so many national interests are dependent.

The last war, however, offered tremendous impetus to the chemical industry. It established on the one hand the severe shortcomings of the industry and pointed out on the other the immense scope for development in those fields, which had so long been neglected by their not getting the necessary encouragement from the Government. The industry was called upon in this period to supply the requirements of war and also the domestic needs of the country. The heavy chemical industry was thus started on an organised scale and met with exemplary success within their limited resources. The production of drugs and medicines reached an efficient level and met effectively nearly 70 per cent. of the war time requirements. All these developments were possible only because of an artificial protection that the industry received by the virtual stoppage of imports from abroad. The post war period has found the industry to-day in the difficult position of having to compete against imported products of well-organised foreign concerns with their vast financial and technical resources. The policy of protection has, however, to be considered from a long term view and the industry has to be assisted to expand further in several basic lines for which the present production is very inadequate. The present fiscal enquiry has, therefore, to take note of the rapid growth of the industry, particularly, during the last decade.

It was expected that in the post war period, that is after 1945 the chemical industry would take heavy strides as the country would be self-sufficient in respect of almost all chemicals and pharmaceuticals that were required. Unfortunately, however, owing to several difficulties not only did the industry not make any development, but on the other hand production had to be curtailed in several lines. The greatest difficulty that the industry experienced was in regard to imports which were till recently being allowed by the Government very liberally. These unregulated imports naturally caused a tremendous setback to the industry. The plants of soda ash, for example, were to be closed on account of excessive imports during the year 1948-49. Similar was the case with the manufacturers of photographic chemicals, caustic soda, etc.

To a certain extent the present financial stringency and lack of confidence in investing public are also responsible for the non-development of this industry. In the case of chemical industry in particular, hold and definite steps on behalf of the Government are required. The previous Fiscal Commission laid down the following general principles for the purpose of protection—

(1) The industry must be one possessing natural advantages such as an abundant supply of raw materials, cheap power, sufficient supply of labour and large home market.

(2) The industry must be one, which without the help of protection is either not likely to develop at all or is not likely to develop so rapidly as is desirable in the interest of the country.

(3) The industry must be one which would eventually be able to face world competition without protection.

These conditions have been already waived by the Tariff Board, but so far as the chemical and pharmaceutical industry is concerned, we beg to submit that these conditions should not be applied strictly.

In view of the importance of the industry in the national economy of the country and considering the natural advantages like the availability of home market, raw materials and labour and progress already made by the industry since 1940, the following suggestions are put forward, which should be taken into consideration by the Government while shaping a new fiscal policy :—

(1) Regulations of imports so that only such quantities are imported as will make up the deficiency in production.

(2) Mere protective tariff would not be an equitable measures of protection for several heavy chemicals. Pools of indigenous and foreign products in respect of those chemicals, which are not yet produced sufficiently to meet the country's requirements should be established.

(3) Protection should be given to the industry on an equitable basis, where-ever it has been applied for.

Protection must be given at least for a period of 10 years to enable the manufacturers to consolidate their positions.

(4) Reduction of railway freight and reclassification in the goods tariff of drugs and chemicals as also raw materials required for their manufacture.

Special reduced rates for coal and coke should apply to the chemical industry.

(5) Import duty on raw materials should be such as to enable manufacture of chemicals on an economic level.

(6) For rapid development of the industry facilities should be given to import raw materials from the cheapest source.

(7) Full facilities should be given for importing chemical apparatus and machinery from abroad and all such equipments imported for research purposes should be duty free.

(8) Greater facilities should be accorded for scientific training and research. More co-operation should be encouraged between the Government and other academic institutions.

(9) Complete removal of all restrictions on export of Indian drugs and chemicals to foreign countries.

(10) Uniformity of excise and other taxation measures in all parts of the country. Various local and provincial taxes have been found to have seriously affected this industry particularly and have thereby limited their competitive capacity.

(11) The establishment of proper organisation for making available the vast natural resources in the country for the development of chemical pharmaceutical industries.

(12) The next step of development of the chemical and pharmaceutical industry is the establishment of production of intermediate chemicals and for this purpose the establishment of dye-stuff coal star, distillating, synthetic and other anti-biotic industry including the penicillin, sulpha-drugs, streptomycin, would be necessary. This will require huge capital and it would be desirable for the Government to start industry by forming corporation with established industry on the same lines as shipping corporations have been established.

Wherever private enterprise is carrying on work for establishment of any of these industries and particularly on anti-biotic lines, the Government should give financial assistance.

Some foreign concerns have established small factories in India, who mainly import finished products in bulk and bottle here. This practice undermines the indigenous industry. The Government should ascertain details of the trading activities of such foreign concerns and see that such harmful and malpractices are put to an end. It would be easier for the Government to undertake this task while scrutinising the import applications for materials in bulk from such concerns.

Government Competition.—

It should completely stop where private enterprise is already in the line. The continued manufacture and standard preparation by the Government Medical Stores and other Government Institutions should be discontinued.

KHOJ PARISHAD, CALCUTTA

I. *A Critique of our Current Fiscal Policy.*

Protection has come to stay in this country. The relevant question now is how it should be organized so that the objectives of rapid industrialization and fuller employment can be realized at the smallest cost to the community.

Till now our protective policy has been characterised by two features : (a) there has been no plan of overall development of the country to provide a framework of reference for individual measures of protection; protective duties have been imposed and revised in relation to single industries as and when public pressure has made itself effective. (b) Secondly, the approach to the problem of industrialization has been negative. We have been impressed by the cost of each act of protection and our chief concern has been to limit protection to the minimum.

The net result of our Fiscal Policy has been a kind of indiscriminatingly discrimination protection. Our Tariff Boards have not examined the scope for the development of the economy and selected the industries to be protected accordingly. They have been asked to scrutinize the potentialities of individual industries and suggest measures of protection for them. They have in consequence, concentrated on the internal economies which are inherent in the growth of single industries and completely overlooked those wider economies that the simultaneous and co-ordinated growth of a series of industries makes available to each and all. For each one of a series of inter-related industries provides a market for the goods of others and their co-ordinated development makes possible an increasing division of labour which reduces the cost of each and all. Specifically the aggregate cost of developing a series of industries A, B, C, D .... simultaneously is likely to be less than the sum total of the cost of developing them one by one over time.

This piecemeal handling of and negative attitude towards protective tariff have been responsible for :

(a) Slackness in the provision by the Government of the country of the supplementary measures referred to in Section E of Part I of the Questionnaire issued by the Commission. For these measures pertain to all industries and not to any one of them and their significance can be properly appreciated only in the perspective of an overall plan to industrialise the country ; and

(b) lack of positive measures to secure efficiency in the protected industries. Economic efficiency is the product of either free competition or planned action by public authority. Neither of these factors have been sufficiently active in our country. We have, for various reasons, skipped the stage of competitive capitalism and plunged straight into monopolistic or oligopolistic capitalism. Internal competition among our protected industries has not been strong enough to ensure rapid growth of efficiency. Almost the only industry, *viz.*, Iron and Steel, which has justified protection is the one in which the element of monopoly is the strongest.

The protected industries, it is true, have been subjected to scrutiny by Tariff Boards as and when their periods of protection have expired. The Tariff Boards have, however, been *ad hoc* bodies which have been influenced far more by the short term situation of the industries under review than by their long term possibilities. Their activities have consisted largely or mainly in calculating the fair selling prices of domestic products and the c.i.f. prices of competitive foreign imports and suggesting tariff rates to cover the difference between the two for short periods at a time. This is natural in an order of things in which there is no provision for a continuous study of the long term efficiency of our industries and for a continuous check on their progress towards freedom from artificial assistance. As a result of these factors our protectionist policy has proved more costly and less helpful than it need have been.

The proper remedy for this state of things is neither indiscriminate protection nor more discriminating protection of the old variety. No one in his sense can support indiscriminate protection, even for the purpose of widening the fields of employment for labour and capital and diversifying the character of our economy. Protection (nor for that matter, free trade) cannot in itself be the

objective of our Fiscal Policy; it is only a means—one out of many—to the end of general economic development of the country. And we require more and not less protection than hitherto; only it must be planned and supervised protection covering whole sections of our economy rather than small bits here and there. To execute such a protectionist policy effectively, Tariff Boards of the old type or even of the new type are inadequate; only a Fiscal Committee working as part and parcel of a National Planning Commission can discharge the responsibility properly.

II. *Capital Formation.*

We have deliberately refrained from posing the protectionist issues in terms of conflict between producers' and consumers' interests. It is only in the short run that such a conflict can exist; for the long run there is only one choice—between efficient and inefficient industrialization.

For efficient industrialization we require capital in large quantities and the wider the range of industrialization we seek to achieve over a period of time, the larger the amount of capital that will be necessary. Two issues have recently acquired importance in relation to capital supply in this country : (a) the inadequacy of our total capital supply and (b) the effect of this inadequacy on the pattern of our industrial structure.

That capital supply in the country should be short of our requirement is something we have been prepared for. Capital is produced out of income and if income is low, the supply of capital will be meagre. This has been true of all countries in the first stages of their development and they have solved their difficulty by foreign borrowing. The U.K. and U.S.S.R. are two exceptions. In the U.K., however, the industrial revolution had been preceded by a commercial revolution based on foreign trade and it is the amassed savings of those who had been engaged in foreign trade that provided the capital for the former. In the U.S.S.R. the current standard of life of the people has been deliberately depressed to provide savings for capital development.

For us the choice is obvious. For historical reasons, the English precedent cannot be repeated by us while the Russian example is more than we can follow beyond a short distance. We have to rely on foreign borrowing and our domestic savings. But the prospects of foreign borrowing are not bright for us. Even assuming that the U.S., the only foreign lender on a large scale, decides on a systematic programme of foreign investment we are likely to be somewhere near the bottom of the list of recipients of American Aid. Given the current shape of international politics, it is only after Western Europe has been rehabilitated and the development needs of the African Colonies of Western European Countries met and the middle east bought over, that we may receive American assistance in substantial quantities. We must therefore rely largely on our internal savings for the supply of capitals to our industries.

Capital formation requires both saving and conversion of saving into instrumental goods either by direct production at home and/or through purchase from abroad. There is a widely publicised opinion today that this process of capital formation has come to a stop or even reversed in this country in recent months. The quiescent state of our stock markets is cited as an index of this phenomenon, while high direct taxation and transfer of income to the rural population are given as major explanations.

The relation between the state of the Stock Market, even of the new stock market and the rate of capital formation is indirect and loose, and there are more plausible explanations of the state of our stock market in terms of recent and current monetary situations. The rise of stock values in recent years has been in large part, speculative, and influenced in great measure by the opportunities for effortless profit making that inflation had created. The process had to come to an end as the inflationary tempo slowed down and to the extent that the swelling of share values had been purely speculative, a collapse of old stock prices was inevitable. This in its turn and has acted as a damper on the market for new stocks. There are besides, technical obstacles to the extension of investment in the shape of shortage of imported capital goods and of auxiliary means of production at home. Finally, it would be interesting to investigate to the extent to which capital information has taken place outside the stock markets.

These arguments, however, relate to the factors that interfere with the conversion of savings into investments; they do not seek to answer the other contention, *viz.*, that there are not enough savings to be converted into investments. The fountain head of capital formation, it is said, is drying up as a result of the rich getting poorer and the poor getting richer in this country. In particular the income of the non-saving rural classes is alleged to have increased at the expense of the saving urban communities.

It is not possible to examine these contentions thoroughly in the absence of proper statistical data. Certain legitimate doubts may, however, be raised regarding their validity. In the first place, higher taxation need not come in the way of capital formation if (a) the state uses the extra revenue for investment and (b) the incentive of the entrepreneur is not adversely affected. The Government of India has, indeed been frightened by effective propaganda to curtail its capital programme and it is obviously squandering a part of its extra income on current expenditure. But all this is not inevitable. Nor has any body heard of our big entrepreneurs taking long holidays because of higher direct taxation. And whatever might be happening today when the upward movement of prices has slowed down and the opportunities of large profits restrained we have recently passed through a long period of high inflation during which savings accumulated in large quantities. A significant proportion of taxable income has evaded taxation and constitutes a large investible fund. That this large saved income should not be available for actual investment is an index of the efficiency of our governmental organization and of the morality of our business community which is alleged to be responsible for large scale tax evasion. For all we know—we may have enough savings at least for our short period requirements: it is of course extremely regrettable that these should not be fully available to the community for investment.

Let us now turn to the alleged transfer of income from the urban savings classes to rural non-saving classes in this country in recent years. A rough index of changes in the relative incomes of different classes of producers in a community is provided by the relative movements of the indices of their outputs and of their prices. Between 1939-49 and 1945-46 the general index of agricultural production in the Indian Union moved down from 99.24 (1934-35 to 1938-39 = 100) to 92.58, while the index of harvest prices of principal crops in the Indian Provinces moved up from 112 in 1939-40 (1938-39 = 100) to 380 in 1947-48. (287 in 1945-46). On the other hand the interim index of industrial production (unadjusted) changed from 102.7 in 1939 (1937 = 100) to 102.4 in 1947. It was certainly higher in 1948, while prices of manufactured articles rose from 100 in 1939 to 346 in 1948. These figures suggest that if there was any transfer of income from the urban to the rural communities in this country it must have been of an extremely insignificant order.

It is irrelevant in this connection to cite the fact that farmers in this country as elsewhere, have paid off their debts to the money-lenders. In all periods of inflation debtors fare better than creditors, and persons with variable income prosper at the expense of others with fixed income. In any event the transfer of income through liquidation of rural debts is entirely *intra-rural* and has taken place in favour of the saving section of the rural community.

We should, therefore, look for other reasons for lack of capital formation in this country than either high direct taxation or transfer of income to the rural population. Indeed as a modern community we should be prepared for an increasing reliance on direct taxation by the Government as both an instrument for the reduction of economic inequalities and a source of revenue for the expansion of public enterprise. The income of the Indian farmer too has been for years depressed and any attempt to cut it down in the prevailing conditions of overall shortage of food and agricultural raw materials may spell disaster.

The Indian economy must then discover new sources for the accumulation of savings and the formation of capital. These sources can, in the nature of things, lie in an increase of efficiency in the private sector and an extension of the public sector. State enterprise worked on principles of competitive efficiency must in future provide an increasing proportion of the total supply of internal savings required for our economic development.

MILL OWNERS ASSOCIATION, BOMBAY

This is not an attempt to give categorical answers to the commission's questionnaire. Only an effort has been made to touch on certain matters which are relevant to the Indian cotton textile industry generally, and to the Bombay cotton textile industry in particular. It is impossible to access to what extent the protection enjoyed by the industry in the period 1927 to 1946 inclusive, is directly responsible for the industry's present financial position. It might, however, be stated in general terms that the improved financial position of the industry today is more due to war conditions than tariff.

2. It is common knowledge that protection to the industry was not immediately available when asked for. Then, only a section of the industry, namely, yarn, was protected, leaving the major section of the industry's manufactures, namely, cloth, unprotected. When at last a small measure of protection was conferred also on the weaving section of the industry, certain other extraneous factors came into existence, which neutralised the effect of that protection. Here, the reference is to the depreciation which took place in the Japanese and Chinese currencies which gave an enormous fillip to these two countries in their export trade with India. When at last counter-measures were taken, India in common with the rest of the world, entered into a prolonged trade depression accompanied by financial stringency and drop in commodity prices. This made things difficult for the industry in consolidating and strengthening its position behind the tariff wall, and practically till the commencement of the World War, it was impossible for the industry to make any substantial improvement so far as its financial position was concerned. It is unnecessary to enter into what happened after the commencement of the war, but it is true that the war gave an enormous fillip to the Indian cotton textile industry, and helped it to improve its financial position. While the protective tariff might have helped to keep the industry alive in the immediate pre-war period, it was the World War II which really helped it to strengthen its financial position.

3. It should not, however, be understood that the industry's present financial position is everything that could be desired, but it should be pointed out that most of the profits made by the industry in the war period were drained off by Government in the form of taxation. It is an admitted fact that during the war and immediately thereafter the industry was working practically to death. All major repairs and overhauling, which necessitated a shut down of some of the machines were postponed to avoid drop in production, and also on the ground that the necessary spares were not available. Replacements of capital machinery were almost unobtainable, and even today whatever small quantities are available, are coming in at prices which are about three to four times the pre-war prices. The industry's machinery is badly in need of replacement, rehabilitation and remodelling. For instance, in the case of cotton mills situated within the City and Island of Bombay, which cover about 66,000 looms and a little under three million spindles, the cost of replacement, etc. would be a little over 100 crores of rupees, whereas the cash resources available to the Bombay industry do not exceed 45 crores of rupees. Even assuming that machinery prices are likely to come down in the near future, a very substantial gap still remains to be covered, which justifies the necessity of the industry being placed in a position in which it would be able to set aside sums which would make good this deficit in the minimum number of years.

4. *Raw materials of the industry.*—The raw materials of the industry consist of (i) raw cotton ; (ii) various types of machinery and spare parts ; (iii) various types of mill stores including fuel oil, furnace oil and lubricating oils ; sizing materials ; bleaching and dyeing materials ; acids, etc. A full list of all the raw materials can be supplied, if necessary.

5. Before partition, the Indian cotton mill industry consumed, on the average, about 4½ million bales of cotton per annum, of which nearly 87 per cent. was Indian and the balance foreign. Roughly, a little over a third of Indian cotton came from the regions which now form part of Pakistan. After partition, the proportion of foreign cotton entering into consumption in the Indian cotton mill

industry, rose from 13 to 41 per cent. In quantities, Indian mills used about 12 lakhs of bales of Pakistan cotton. Most of these cottons consist of staple varieties, and if, for any reason, the usual supplies of cotton from Pakistan are not available in the future, the gap would have to be made good by additional imports from abroad.

6. As regards capital machinery, the major portion of it is usually imported from countries such as U.K., U.S.A., Switzerland, Germany and Sweden. There are now two or three Indian companies engaged in the manufacture of spinning frames and looms in this country, but so far as our information goes, their production has not reached commercial dimensions. There is also a scheme which is supported by almost all mills in India, and which aims at producing spinning machinery sufficient to meet India's requirements. Our dependence on various countries as regards the spinning preparatory, weaving preparatory and finishing, sizing and other machines still continues.

7. With the exception of the following most of the other mill stores now seem to be capable of being manufactured in this country, but it cannot be said that all of them are fully equivalent both as regards utility and quality, to imported goods. Among the mill stores not manufactured in this country may be mentioned ring travellers, card strippers, card fillets, reed wires, shuttle tongues, furnace and fuel oil, gear oil, lubricating grease, steel rings for ring frames, steel weft forks and holders card combs, and all other sorts of card clothing accessories, several items of dyes and chemicals, etc. Considerable progress was made in manufacturing several items of mill stores and in finding substitutes for others during the war, but the position is not still very satisfactory.

8. The industry's main business is to spin yarn out of cotton and weave it into cloth. The annual production of cloth, taking peak production, is about 4,800 million yards. After meeting the weaving requirements, there is now a surplus of about 500 million lbs. of cotton yarn available to the Indian handloom industry and to other domestic consumers. Roughly, the quantity of yarn available to the Indian civilian market is about a third of the total quantity of yarn produced in Indian mills : in other words, two-thirds of the yarn produced is consumed by the mills themselves and the balance one-third goes to the domestic consumers outside the mills, namely the handloom industry, the rope manufacturing industry, the hosiery manufacturing industry, etc.

9. It is very difficult to say precisely to what extent productive capacity in the cotton textile industry requires to be increased in future. Firstly, due to partition about one thousand and two hundred million yards of cloth which used to be absorbed in the past in Provinces, which now constitute Pakistan, will be thrown back on India. Pakistan not being under any obligation to take it or at least a part of it. It is true that, the prohibition of imports, which used to be in the neighbourhood of 750 million yards in the pre-war period, will reduce the surplus on hand to 450 million yards. A portion of this surplus might be coming from the handloom industry, but our first task will be to find a market for this surplus, either by an increased internal *per capita* absorption, which might be difficult unless there is a substantial increase in the purchasing power of the consumer, or by a substantial increase in the export trade of the country.

10. This is the proper place to mention that the first Tariff Board which went into the question of protection to the Indian cotton textile industry recommended that the industry should switch over to the production of finer goods as one of the remedial measures to relieve depression in the industry. This recommendation was given effect to by a number of mills regardless of the expense involved, and between 1930 and the commencement of the Second World War, production of cotton yarn of over 40s went up from about 9 million lbs. to 33½ million lbs. in Bombay City alone. There has also been an increase in the production of medium counts, and this has in a large measure, helped to relieve the congestion of over-production in coarse goods. Change in tastes and habits of consumers in the last two decades has brought about a demand for

larger quantities of fine and superfine plain and fancy goods than are capable of being produced today with the equipment available. In these circumstances. it is suggested :—

(a) All obstacles which stand in the way of producing increased quantities of fine and superfine plain and fancy goods, should be removed, and

(b) The necessary conditions should be provided which would give reasonable inducement to any manufacturer to invest his money in securing the necessary equipment.

As regards (a), the Association desires to make the following proposals :—

(i) The excise duty on cloth which at present works out at 25 per cent. on superfine goods and 6¼ per cent. on fine sorts, should be removed ;

(ii) The import duty at present paid on imported cotton at 2½ annas a lb. should be removed, as also the high rate of duty which is imposed on textile machinery and spare parts ;

(iii) There should be no restriction as regards the fineness of the goods which can be produced in cotton mills.

As regards (b), attention is directed to the recommendation made by the recent Tariff Board which went into the question of fixing prices for cloth and yarn manufactured by the industry. These recommendations have since been accepted by the Government of India, but the Association regrets to point out that the conditions provided by the Tariff Board are not such as would induce any investor to put his money in the industry. The Board has fixed a return on capital at 6 per cent. on the gross block which, in their opinion, provides for a corporation tax of two annas in the rupee, a reserve of 40 per cent. of the gross profit for replacements, payments of managing agency commission at 7½ per cent. of the gross profits, and a dividend of 5 per cent. on paid-up capital which, in the Association's considered opinion, are inadequate.

11. The question of further increase in the productive capacity of the industry must be considered only after providing ways and means for the absorption of the surplus created by partition.

12. The small-scale or subsidiary industries, in the development of which the industry is interested, are :—

I. *To absorb mill industry's manufactures.*

(1) Handloom industry.
(2) The rope making industry. } To absorb our surplus yarn.

(3) The processing industry, namely, Dyeing, Bleaching and Printing industry.

II. *To provide raw materials for the industry.*

Industry engaged in the manufacture of various items of mill stores.

With regard to I (1), it should be pointed out that in the period 1942-46, considerable increases in the number of handlooms were reported, due mainly to the profit which could be made in the business. The position has now probably undergone a radical change, and it is now reported that, as has happened in the case of the Indian cotton mill industry, the handloom industry is also suffering from the accumulation of stocks, in view of Pakistan's disinclination to continue to buy her clothing requirements from India. The only suggestion we can think of at the moment, which would maintain handloom industry's offtake of Indian mill-made yarn, is to explore the possibility of increasing the export of handloom goods. The handloom industry's bulk consumption of yarn is in counts 12s to 24s, and it seems possible, with a certain amount of organisational facilities, to develop an export market, in fancy bedspreads, cushion covers, furnishing fabrics and other materials which are usually manufactured from these counts.

13. Industries receiving Tariff protection should ordinarily be given full freedom in the matter of working for their own salvation according to the circumstances present in each case. There is, however, no objection to Government calling for periodical reports to satisfy themselves that the industry is putting its house in order. There is also no objection to such reports being scrutinised by an expert or experts.

14. The procedure at present followed by Tariff Boards in disposing of applications for protection seems to call for a minor variation. The application for protection from an industry, whether it be submitted to the Government of India or to the Tariff Board, should be circulated by the Tariff Board with their invitation to the various organisations and individuals for tendering evidence. At present except the Tariff Board and the industry applying for protection, nobody seems to have any chance of scrutinising the grounds on which the claim for protection is made.

15. As regards the Havana Charter and the General Trade Agreement on Tariffs and Trade, it would have been helpful if the Commission had appended a list of countries which have accepted these documents. Anyway, so far as the cotton textile industry is concerned, the documents generally seem to be in order except in one respect, namely, it does not seem to permit the imposition of quantitative limitations on imports from foreign countries. Protection of an indigenous industry is usually granted in the form of protective duties which may be on an *ad valorem* basis coupled or otherwise with a minimum specific duty. In appropriate cases even though there may be a justification for the imposition of very high protective duty, the object could be achieved by imposing a lower rate of duty and a quantitative limitation on imports. For example, when the cotton textile industry of India was a protected industry, there was a restriction on quantities of piecegoods which could be imported from Japan in addition to a protective duty.

THE ALL-INDIA MANUFACTURERS' ORGANISATION

The Working Committee of our Organization have decided to address the Commission as under after careful consideration of the implications of the various statements on Foreign Capital so far made by Government.

2. Recently at the Second Meeting of the Central Advisory Council of Industries held in July this year the Hon'ble Minister for Industry and Supply, Dr. Syama Prasad Mookerjee said that once a foreign concern was admitted to establish its factory it would be treated exactly in the same manner as any other Indian concern and that there would be no discrimination of any sort against any foreign concern or any favour to parallel industries owned by Indians. The Committee want to point out that this does not accord with the statement made by the Hon'ble Prime Minister in the Dominion Parliament in April last. With regard to the existing foreign interests the Prime Minister had then said that Government did not intend to place any restrictions or impose any conditions which were not applicable to a similar Indian enterprise. In the case of further foreign capital, he had said that Government would so frame their policy as to enable it to be invested in India on terms and conditions that would be mutually advantageous. It follows, therefore, that by the Prime Minister's statement the Government of India are committed to the policy of non-discrimination only in respect of existing foreign interests in India. Under these circumstances, my Committee do not understand why the Hon'ble Minister for Industry and Supply should have gone to the extent of saying that the principle which was enunciated by the Prime Minister only in respect of the existing foreign industries in the country would be made applicable also to future foreign investment. In the opinion of my Committee this policy of non-discrimination will do incalculable harm to the growth of nascent indigenous industries and discourage further indigenous investment. The Bombay Industrial and Economic Enquiry Committee presided over by Sir Purshottamdas Thakurdas says in its report issued in 1940 " We desire to draw the forceful attention of the Local Government to the difficulties which small Indian concerns are bound to and indeed do feel in the face of the competition of such concerns of a much larger size. If it is the objective of our industrial policy to encourage the establishment of small concerns, then the objective is defeated .... if these large foreign concerns are permitted to establish themselves without reasonable and effective limitation."

It will not be out of place in this connection to point out that even in the Charter of the International Trade Organization emphasis is laid only on the desirability of avoiding discrimination as between foreign investments and not on equal treatment between indigenous and foreign investment.

3. In the considered opinion of the Working Committee the assurance to treat the existing foreign capital on par with Indian capital also goes beyond a reasonable limit. In a resolution passed in 1947 (copy enclosed) the Organization has drawn the pointed attention of Government to the irreparable damage already inflicted on indigenous industries by the competition of powerful foreign interests with international ramifications which have entrenched themselves strongly in the country and have urged upon the Government to prevent the operations of such foreign interests working to the detriment of indigenous enterprises. The same view has been reiterated in a recent resolution of the Organization (copy enclosed). The apprehension is based on actual conditions now prevailing in a few protected industries wherein foreign interests are operating side by side with Indian enterprises. The Committee want to refer in this connection to the realistic view taken by the Indian Tariff Board while reporting on the Motor Vehicle Battery Industry, that the Government should adopt necessary measures to safeguard the Indian section of that industry which was likely to be affected by the expansion of production by certain foreign companies in India. The Government, on the other hand, instead of heeding to the advice of the Tariff Board have stated that there will be no discrimination against the existing foreign concerns in India with a view to withholding from them the full benefit of protection granted to industries in which they are engaged. It follows, therefore, that when protection or assistance is conferred on a particular industry, all the units of that industry whether Indian owner or not will be automatically entitled to claim the same benefit.

In the opinion of the Committee this defeats the very purpose behind granting protection or assistance to industries in the country, *viz.*, to enable indigenous industries to stand on their own legs within a reasonable period of time and to arrest the drain on country's financial resources by imports from abroad. The foreign interests have been permitted to carry their profits out of the country, and the only advantage that the country will derive will be in finding employment to a few thousand nationals in lower categories of work.

4. The policy of non-discrimination between indigenous enterprises and foreign concerns that are already set up or will be set up in future has created serious misgivings in the minds of Indian industrialists, especially those who are engaged in small and medium scale consumer industries. Till now foreign capital has been freely allowed to take shelter behind tariff walls intended to protect indigenous interest. With their huge financial resources and capacity for cut-throat competition, some foreign concerns have in the past driven to the wall many small indigenous concerns. Connecting the three angles, *viz.*,(1) the attitude of American capital to choose direct form of investment as is abundantly evident from previous remarks of American officials in India on the subject, (2) the Hon'ble Dr. Mookerjee's statement that "once a foreign concern was admitted to establish its factory it would be treated exactly in the same manner as any other Indian concern" and (3) what is actually happening in the case of protected industries such as Motor Vehicle Battery Industry and Dry Battery Industry where almost 90 per cent. of the tariff protection goes to strengthen foreign companies established in India, an eternal triangle is formed which will compel many Indian Industries to lead a precarious existence. Government's recent assurance that indigenous industries would be taken into their confidence before permitting any foreign concerns to set up factories in India is of little practical value because we are yet in the initial stage of our industrial development wherein in many fields of industrial activity, we have either no interests or have not sufficiently organized interests that can influence the Government's policy or decision in such matters. Some urgent action is, therefore, called for, if the future of indigenous industries is not to be permanently jeopardised.

The Government of India may consider the feasibility of taking action on the following lines recommended by the External Capital Committee in 1925. "Where investment of foreign capital carries with it the control of an undertaking, we consider it reasonable that when Government grants particular concessions to the industry it should exercise such control over the undertaking as will ensure that the benefits of the concessions accrue primarily to the country. Where the concession is general, as in the case of a protective tariff, it is impracticable to effect any discrimination. (b) Where definite pecuniary assistance such as a bounty is granted to any particular undertaking, we consider that discrimination is feasible, and no such assistance should be granted to any company, firm or person not already enjoyed in that industry in India unless (1) reasonable facilities are granted for the training of Indians; (2) in the case of a public company unless (i) it has been formed and registered under the Indian Companies Act, (ii) it has a share capital expressed in rupees, (iii) such proportion of the directors as Government may prescribe consists of Indians. (c) Where a concession is granted to exploit a wasting asset such as a mineral concession, no definite rules can be prescribed".

6. The Committee also want to point out that the Government are not scrupulously adhering in practice to the policy enunciated by them as regards the manner in which foreign capital is to be invited to invest in India. In the Industrial Policy Statement issued on April 6, 1948 it is said that as a rule the major interests, ownership and effective control should always be in Indian hands. The Hon'ble Prime Minister has also made it clear in his statement that the object of regulation of foreign investment should be the ultilization of foreign capital in a manner most advantageous to the country. But instances have been brought to the notice of our Committee where in such industries as Soap, Biscuits, Cocoa and Chocolates, Cycles, Sewing Machines, etc., foreign companies have been permitted or are being permitted to set up their own factories in the country in the face of opposition from the concerned indigenous industries and without any consideration to the overall production capacity of indigenous industries. It is not understood why our Government have ignored

indigenous interests and are permitting foreign interests to set up their own factories in the very fields in which the indigenous production is either already sufficient or can be easily stepped up to meet the country's full demands. It is reported that in spite of opposition from indigenous automobile industry a foreign concern is going to be permitted to make cars in India. Similarly, my Committee understand that a powerful British combine is being permitted to establish such a simple consumer-goods industry as the manufacture of chocolates, in this country in spite of the protest of the growing indigenous industry. Such incursions of powerful foreign interests in such fields of Indian industry where Indian capital is struggling hard to build up certain industries, can only spell harm to national economy.

7. A clear demarcation specifying the fields in which foreign capital can be permitted to come in is therefore urgently required. The Organization is strongly of the view that priority should be given to those foreign investments that go to create capital goods rather than consumer goods. This has the weighty support of the view expressed by the Advisory Planning Committee presided over by the Hon'ble Mr. K. C. Neogy, the present Minister for Commerce. Referring to investment in consumer goods industries, the Report says—"If foreign companies with their vast resources, technical and financial, are allowed to establish themselves in industry in the fields at present not covered by Indian enterprise, there is little chance, in our opinion, of that enterprise being brought into existence at a future date. Even if an attempt is made, it would have to contend against formidable difficulties. It seems to us preferable that the goods which the country cannot produce at present but would be in a position to produce later on, should continue to be imported from other countries rather than that their local manufacture should be started or expanded by foreign firms. In the course of time it will be possible to restrict or discontinue foreign imports; but vested interests once created would be difficult to dislodge."

8. The Working Committee have made a reference earlier to the two resolutions passed by the Organization on "Foreign Capital", stressing the need for providing suitable checks on the undesirable activities of existing large foreign concerns with world-wide ramifications and vast resources and which are operating to the detriment of indigenous industries run by nationals of the country. The Committee trust that as urged therein the Government would realise the need for passing such anti-trust laws as may be deemed necessary to safeguard Indian industries and free enterprise in the country. To enable the Government to enact proper legislative measures, the Committee suggest that an Investigation Committee should be appointed by the Government at an early date to inquire into the working—financial and organizational—of the existing foreign enterprises in the country.

9. In conclusion my Committee deem it very essential that Government should set up special machinery to advise them on foreign investments in India. The Hon'ble Minister for Industry and Supply has no doubt said that as a matter of policy the Government would take indigenous industry into confidence before allowing any foreign concern to set up factories in India. But this assurance as pointed out already, will not serve much useful purpose, as in a number of industries India has either no interests or not sufficiently organized interests which can shape Government's policy or decision. The Working Committee, therefore, stress that Government should set up an Advisory Committee or Board consisting of representatives of leading industrial organizations in the country. The Committee or Board in consultation with the indigenous industries whose interests are likely to be affected by the establishment of a foreign industry in the same field should scrutinise every individual case of participation of foreign capital and management in industry and recommend to Government deserving cases and advise the Government on the terms on which such cases should be created.

In view of the vital importance of the subject, the Working Committee trust that the views expressed here will merit the earnest consideration of the Government and that the Government will be pleased to let the Committee know the measures that they propose to take in the matter.

Foreign Capital.

(*Resolution passed at the First Quarterly Meeting of the Central Committee of the All-India Manufacturers' Organization held on the 8th May,* 1949)

This meeting of the Central Committee of the All-India Manufacturers Organization welcomes the statement on "Foreign Capital" made by the Prime Minister of India in Parliament on April 6, 1949, as it clarifies the Government's attitude in regard to such matters as the repatriation of capital, remittance of profits, and treatment of foreign enterprise *vis-a-vis* Indian enterprise.

While the Central Committee agrees that Indian capital needs to be supplemented by foreign capital to facilitate rapid industrialization of the country and that suitable conditions must be provided to attract such capital to come into India, the Committee apprehends that unless there are suitable checks on their undesirable activities, large foreign combines with world wide ramifications and vast resources might operate in our country to the detriment of Indigenous industries run by nationals of the country. The Committee, therefore, urges the Government to pass such anti-trust laws as may be deemed necessary to safeguard Indian industries and free enterprise in the country.

The Committee draws the attention of Government to the omission to exclude internal air and coastal traffic from the principle of equal treatment to foreign capital.

The Central Committee reiterates the Organization's view that such foreign capital as may be required by the country should be secured preferably in the form of loans from abroad on equitable terms under guarantee from the Government of India. The proceeds of these loans should be directed to such productive channels as are most beneficial to rapid economic development of the country in line with the Government's policy of planned Industrialization.

Indian Industries and Foreign Capital.

(*Resolution passed at the Seventh Annual Conference of the All-India Manufacturers' Organization held at New Delhi, on 14th and 15th April,* 1947)

While holding the view that India's resources of yet untapped capital could be mobilised in the future for the industrial development of the country by suitable fiscal and financial policies on the part of the Government of India for attracting such capital, this Conference of the All-India Manufacturers' Organization is of the opinion that in view of the imperative need for hastening the industrialization of the country on sound lines, and in view of the desirability of securing the technical co-operation of industrially advanced countries for bringing about such industrialization with the minimum of initial difficulties it may be necessary to invite to some extent the flow of foreign capital into certain categories of industrial enterprise. It emphasises that such external capital as may be required should be secured preferably as a loan from foreign countries on equitable terms and believes that this would be possible particularly because of the high credit enjoyed by India in foreign capital markets and because of the rise in political status of India in the international world. The Conference holds, however, that in all such cases reasonable safeguards should be laid down in the agreement with foreign firms to ensure that ownership, control and management of the industries should be predominantly Indian, that necessary Indian technical personnel should be trained by the firms concerned and that foreign vested interests are not permitted to grow in the country.

In view of the irreparable damage already done to the indigenous industries by the competition of powerful foreign interests with International ramifications which have entrenched themselves strongly in the country, this Conference urges upon the Government of India to prevent further growth of such interests and conduct at an early date an enquiry into the extent, and amount and consequences of foreign investment in India at present.

Before referring to the memorandum submitted herewith, the Working Committee like to express their thanks to the Fiscal Commission for the opportunity given to them to express their opinion on the important subject of an appropriate fiscal policy for the country. The Committee have stressed on a number of occasions in the past the urgent need for revising the fiscal policy of the Government. They are, therefore, gratified to note that a Fiscal Commission has been appointed by Government to make suitable recommendations for the purpose.

The Committee do not propose to go in detail here into the harmful effects of the policy of discriminating protection followed by Government in the past. The defects in the policy and in its working are dealt with at sufficient length in the body of the memorandum. Protection to many industries vital to the country's defence as well as to the peace-time economy of the country has been either denied or delayed. If the country is deficient in a number of important industries to-day, it is largely due to the halting policy followed by the alien Government and the half-hearted way in which it was applied by them. Whatever developments there are in a few industries such as cotton textile, iron and steel, sugar, cement and matches cannot be credited to the policy of discriminating protection alone. The logic of many events and the force of many circumstances beyond the control or intention of the Indian Government of that period have resulted in these developments in which the half-hearted policy of fiscal protection or Government assistance to industries played a minor role. Industries selected for protection or assistance were selected, not so much for their importance in nation building but more out of political considerations.

It is also not necessary for the Committee to explain at length why a new fiscal policy appropriate to the changed political condition and post-war needs of the country is urgently required. This will also be found in the memorandum. It is sufficient to state here that the country is still deficient in a number of important industries some of which are vital to the existence of the country as an Independent Sovereign State. Their growth will have to be fostered by the Government by implementing a rapid industrialization programme with energy and vision. The instrument of fiscal policy will be an integral part of this plan and programme. Protective tariff of course will constitute an important item in the new fiscal policy; but equally and perhaps more important will be assistance from Government in obtaining such essential requirements as finance, capital goods, raw materials, transport, technical aid, scientific research, etc. The national Government in power has the primary responsibility of promoting the economic development of the country on a planned basis. It cannot afford to remain content by negative measures as tariff protection to a few industries. It will have to assume wide responsibilities for the country's industrial uplift.

Various suggestions have been made in the memorandum submitted herewith but the Committee propose to recapitulate here only a few of the more important recommendations.

(1) The present formula of discriminating protection should give place to a new fiscal policy designed to promote the rapid industrialization of the country on a planned basis and to meet the post-war and the permanent needs of the country. The principle of adequate and effective protection to all suitable industries of the country should be accepted. There should be no over-emphasis on any one of the requirements, however, important it may be considered individually, such as, availability of raw materials, of labour, of market and inherent possibility of the industry to withstand foreign competition after sometime. The only over-riding condition should be that the industry should be one suitable to the country and having reasonable possibility of development with the fostering care and encouragement of the State. In case the industry is essential to the country as an independent national or vital for the maintenance or development of its national economy, its growth ought to be fostered by Government by all possible direct and indirect means irrespective of other considerations.

(2) Protection or encouragement by the State should not be confined to only existing industries but should also be assured to deserving industries which are yet to be promoted.

(3) The existing administrative machinery for implementation of fiscal policy should also be thoroughly revised. A permanent Tariff Board with wider powers and responsibilities must be set up on a statutory basis as part of an administrative system designed to carry out industrialization as per a definite plan, comprehensive and co-ordinated.. Without waiting for specific reference or appeal from Government or parties concerned, the Board should be empowered to make its own investigations and suggestions, keep under survey the entire field of industry, watch the changes going on from time to time at different points, co-relate them into a single frame-work, and maintain a consistent, progressive policy of active sympathy and encouragement of the nation's productive capacity. It must be composed of not more than 7 and not less than 3 members, competent, experienced and well-informed and selected from the public life of the country, including industry, trade, labour and Government. The Board must have power to co-opt or add whenever necessary to its number for each particular enquiry that it may have to conduct so as to make its investigation and recommendation as fair and reasonable as possible.

(4) The present system of Imperial (or Commonwealth) Preference may be continued with such changes as may be considered necessary in the light of the changed political condition and present requirements of the country. The preferential treatment should not, however, be confined to the United Kingdom only. Possibility of developing markets for Indian manufactures in certain under-developed Commonwealth areas as well as in areas outside the Commonwealth by bilateral and multilateral treaties should be explored.

(5) A National Planning Commission should be set up after some time to frame an industrialization plan and programme for the country. It must be representative of the interests concerned as well as of Government. The Planning Commission would only be an advisory and a recommendatory body and should not be invested with any executive functions.

(6) There should be proper integration and co-ordination of the working of the Tariff Board with that of the Planning Commission and that of the proposed Industries Licensing Board or Advisory Committee envisaged under the Industries (Development and Control) Bill.

(7) An Economic Committee of the Cabinet should attend to all functions requiring co-ordinated action in the sphere of economic policy. This Committee should meet regularly to co-ordinate the working of the various Government Ministries concerned with economic activities and expedite their decisions on economic plans.

(8) The fiscal policy should facilitate the import of scarce raw materials and capital goods, including plant and machinery, their parts and accessories, particularly during the coming years, to facilitate the rapid industrialization of the country.

(9) The last Fiscal Commission's recommendation that 'raw materials and machinery be ordinarily admitted free of duty and that semi-manufactured goods used in Indian industries be taxed as lightly as possible' should be implemented. This should include rebate or refund of import duty on manufactures exported by us, but which contain imported raw materials.

(10) Greater financial assistance should be given by the Government through the Industrial Finance Corporation in the Provinces and at the Centre, and by raising an Industrial Loan both from within the country and where necessary from outside, so that deserving industries may be guaranteed requisite finance at reasonable terms. The existing legislative measures regarding provision of credit by banks and insurance companies should be suitably modified and made elastic so as to enable banks and insurance companies to finance industry on a greater scale.

(11) Provisions should be made for economic rates of carriage of goods by railways and shipipng by co-ordinating the working of the different types of transport available in the country, and by distributing or allocating all available traffic between the various forms of transport in such a manner as to serve both the immediate and long range needs of the country.

Coming now to subjects which are not covered by the Fiscal Commission's Questionnaire the Working Committee like to draw your particular attention to one or two glaring omissions. There is no reference at all to the important question of treatment of foreign capital *vis-a-vis* indigenous capital. The Working Committee are not in agreement with the Government's view on the subject. The Prime Minister gave an assurance in the Dominion Parliament on April 6, 1949 that the existing foreign capital would be treated on par with the Indian capital. The Hon'ble Minister for Industry & Supply went a length further and declared at the Second Meeting of the Central Advisory Council of Industries held in July last that the principle which was enunciated by the Prime Minister only in respect of the existing foreign industries in the country would be made applicable also to future foreign investments. The policy of non-discrimination between indigenous enterprises and foreign enterprises that are already set up or will be set up in future has created serious misgivings in the minds of Indian industrialists, particularly those engaged in medium and small scale consumer industries. A copy of the detailed representation on the subject made by the Working Committee is enclosed herewith for the information of the members of the Fiscal Commission. It may be pertinent to point out here that even the last Fiscal Commission composed as it was mainly of interests with no particular attachment to the interest of the country at large, has stated as follows while discussing the question of stipulations which should be prescribed by Government in the case of Government concessions, etc., to foreign concerns in India.

"We think, however, that where Government grants any thing in the nature of a monopoly or a concession, where public money is given to a company in the form of any kind of subsidy or bounty, or where a licence is granted to act as a public utility company, it is reasonable that Government should make certain stipulations. Where the Indian Government is granting concessions or where the Indian tax-payers' money is being devoted to the stimulation of an enterprise, it is reasonable that special stress should be laid on the Indian character of the companies thus favoured. In all such cases we think it would be reasonable to insist that companies enjoying such concessions should be incorporated and registered in India with rupee capital, that there should be a reasonable proportion of Indian directors on the Board and reasonable facilities should be offered for training of Indian apprentices at Government expenses. We note that this policy has been generally accepted by the Government of India. During the debate in the Legislative Assembly on the 2nd March 1922 on the resolution moved by Sir Vithaldas Thackersey recommending that measures should be taken to provide that as large an amount as possible of the 150 crores set aside for the rehabilitation of railways during the next five years should be spent in India, Mr. Chatterjee on behalf of Government stated : 'The settled policy of the Government of India as I think we have mentioned more than once in this Assembly, is that no concession should be given to any firm in regard to industries in India, unless such firms have a rupee capital, unless such firms have a proportion, at any rate, of Indian Directors, and unless such firms allow facilities for Indian apprentices to be trained in their works. This has been mentioned more than once, and I can only repeat this declaration'."

This view has also been supported by the present Tariff Board in their reports on aluminium and motor vehicle battery industries. As the subject is vitally important and will have repercussions on the existence and growth of indigenous industries the Committee very much desire that the Fiscal Commission should pronounce its weighty opinion on it.

Equally glaring is the omission of the question of taxation from the purview of Fiscal Commission's investigation. The increase in taxes on industry and trade during recent years has scared industrialists away to such an extent that entrepreneurs are not readily and willingly coming forward to start new industries. It is the view of the Working Committee that the Fiscal Commission should look at the question of industrialization of the country as a whole, from all angles and aspects and not ignore a question of the importance of taxation which has a vital bearing on industries as well as on the fiscal

policy of the country. The Committee, however, do not propose to go into the subject now, apart from drawing the attention of the Commission to page 28 of the "Industrialization Scheme in Two Parts" recently published by the Organization (copy enclosed along with the Memorandum). It is a matter for some satisfaction that of late the Government have realised the imperative necessity of giving suitable relief to industries from the present abnormally heavy taxes.

The Working Committee trust that the detailed memorandum submitted by them on the subject of an appropriate Fiscal Policy for the country will receive the careful consideration of the Fiscal Commission. Any clarification that may be required by the Commission will be gladly given by the representatives of the Organization when they meet the Commission in Bombay for giving oral evidence.

Memorandum of answers to the Questionnaire of the Fiscal Commission submitted by the Working Committee of the All-India Manufacturers' Organization.

PART I.

SECTION A (1).

INTRODUCTORY—*Changes in Economic Background since* 1922-23.

Question 1.—India has travelled a long way economically, politically and socially since the days of the Indian Fiscal Commission of 1922. The changes have been fundamental; the basis of thought have altered. The whole structure has so changed that to attempt still to use the report of 1922 as a base would be like trying to make a grown up wear his old 'booties'. To what may be the change be attributed? No one thing can claim the credit. Time has forced the evolution; and evolution may be said to comprise in this case, of progressive education, lessening of the degree of foreign domination, indigenous enterprise, greater political freedom, loosening of economic strangulation, etc. etc. Each in its own way has contributed to the change. But the culmination came on 15th august, 1947. The past and all its deeds were to give place to a future with a different background. India is not what India was. Her granaries are no longer hers; the war and its effects on other countries have reacted on her—adversely quite often. Her population problem is greater than ever, her transport system requires much to be desired.

On the other hand, she is master of her own destiny, her own sons are at the helm, her vast resources are yet untapped, foreign aid without domination is feasible, the war has given her industries a push, the world outlook has changed. The concept now is of a "Fair Living Wage" rather than a "Subsistence Level Wages". It is now in the light of this that we must review the whole situation.

The organization has all along been agitating for implementation of a rapid industrialization plan and programme, as the material progress of the country largely depends upon it. The country is deficient in a number of industries and their growth will have to be encouraged by the State in every possible way. A fiscal policy rightly conceived, can play a great part in this connection.

Further, a new tariff policy, appropriate to the post-war needs and conditions of the country, is urgently called for. Sooner or later, a post-war depression is bound to set in, as on the previous occasion. To combat the after war slump and to provide a security to the indigenous industries, a reorientation of the fiscal policy is, therefore, necessary.

Question 2.—(a) The change in respect of the production of agriculture has adversely been affected due to the general causes mentioned above. But the main feature has been from the "extensive" to "intensive" production. And the emphasis on this change has been further necessitated by the partition. It

is an irony that in spite of this emphasis, the yield per acre has declined except perhaps in the case of sugarcane, jute and cotton. The war and the pressure of population have given impetus to agriculture but tradition, religion and complexes have impeded progress. New methods of production are essential and the era of massive irrigation works and tractors has set in. To be in keeping with the times, agricultural finance, basic education and scientific agricultural research, must fall in line. Methods of storing are being and have to be improved, for, in the initial stage while production is lacking behind, imports well stored would give the necessary breathing time. The abolition of Zamindari and the landless labour class, the consolidation of fragment holdings is likely to contribute a higher yield. A comparative high standard set by the war is also likely to induce the agriculturist to produce more than his own requirement of food so that with the surplus he can have other things that he has now got used to. The reclaiming schemes tend to supplement 'intensive' farming with an 'extensive' one. One very glaring omission has been the lack of interest in dairy farming and in production of vegetables and fruits and their preservation.

(b) While statistics in this connection is almost nil, it can be said that since 1922 the distribution of agricultural products has been more even due to many reasons—*viz.*, better form of transport, desire and capacity for more and to have more, thanks to a higher purchasing power of an individual and finally, Government's efforts to reduce maldistribution. The desire to consume is likely to increase as standards improve but only a check on the population and improvements in production can prevent disappointment to consumers in general. Our imports have to be restricted and the import of rice from Burma is not what it was thus aggravating the situation. Our own shipping is fairly developed and could be of immense service to us at this stage, for our imports would not drain so much of exchange as would be the case were foreign ships to bring our food stuffs. It is difficult to say whether there has been any change in the habits and tastes, *i.e.*, whether one cereal or vegetable or fruit is now preferred to some other and if so, to what extent; but the tendency has been a preference for finer quality as capacity to purchase has increased.

(c) The land of farmers that once used to export foodstuffs has now become a chronic importer. The reasons are no doubt contained in (b) and (c) above; with an increased desire to consume, the capacity to produce has comparatively fallen. The attraction to industry from agriculture is unfortunately not the cause, for in that case, on the whole, India would have still gained. There is also the fact that other countries have made great strides in the science of agriculture and of "industrialising agriculture", a term yet unknown to us. We have been ousted from foreign markets not because we have no basis to work on but because we have not the 'know-how' to utilise the base and compete. We still hold a few monopolies in agricultural products but due to lack of initiative in us to develop these further we are likely to lose on that score also, as, substitutes are brought out by foreign countries to replace these monopolies.

Question 3.—Food is the base of the pyramid on which economy of every country must depend. We have already dilated the production tale of woe. For one thing, less production means higher price and so less food for industrial labour which must reflect on industrial production and efficiency. Again, lesser mechanisation means more labour necessary on the field and less labour available for industries. If we had surplus food to sell, we could always batter this next-to-gold commodity for things necessary for our rapid industrialization. The dearth of cheap and high grade raw materials has impeded directly the growth of industries using those raw materials. In a country such as ours unlike England, industrial future is wedded to agricultural prosperity; an attempt to divorce the two would lead to the ruination of both. Here again transport—land and water must be made to play their part in assisting industry not only directly but also through better distribution of agricultural products. India need not fear, at least, for some years, of over production or under consumption when products are given reasonable values.

Question 4.—Both in agriculture and mining a policy of intensive cultivation and large-scale production is indispensable. The handicaps and difficulties

whether from foreign competition, or native deficiency in capital equipment, or efficient labour and technical skill, must be remedied or removed by an appropriate fiscal policy.

Taking agriculture first, it is common knowledge that there are many heavy difficulties that prevent the maximum potential yield being realised from that great source of primary production. The several projects now in hand are designed to remedy some of these handicaps of that greatest of our national industries. A reference has already been made in reply to Question 2 (a) to some of the handicaps suffered by our cultivators and to the means of overcoming them. The uncertainty, irregularity, or inadequacy of water supply in the periodical rainfall is an old and serious handicap, which can, however, be remedied by the projects referred to above. But these are long term measures which will take years to accomplish. For immediate benefit, therefore, some system of providing more regular and adequate water-supply suited to the small-scale agricultural producer in India found all over the country—like tanks or wells—is indispensable. And this can be provided without prejudice to the large-scale long-term multipurpose projects of river-training, irrigation and electric supply.

The new land brought under cultivation with the help of these large-scale projects, or the reconditioned land which may be settled after these projects have taken effect will, of course, answer the long-term need of the country of increasing food supply and raw materials in the requisite degree. But, as mentioned already, they will take time,—between ten and fifteen years to reach their full capacity. During that time the shortage of foodstuffs and of industrial raw materials must take its toll upon the peoples vitality, unless immediate remedy or relief through import is provided. It is, therefore, to counteract this handicap that the suggestion has been put forward for the improvement of wells and tanks which are much more suited to small-scale producer characterising Indian Agriculture. The large-scale projects may then be left to provide a permanent and abiding remedy.

Even if this primary requirement is met, our Agriculture would still have to face serious difficulty which prevents it yielding its potential maximum because the unit of cultivation is too small and fragmented to be economic in cultivation. The equipment of the farmer is also too primitive to yield all than can well be expected from the inherent richness of our soil. Some form of wholesale reorganisation, by a system of cooperative cultivation and land-holding, is accordingly indispensable, if cultivation is to be on a profitable and economic basis. The necessary complement of equipment, by way of cattle and agricultural implements, are more easy to provide if such reorganisation is effected; and the yield would also be much larger.

The relative paucity of adequate replenishment of the inherent potential of the soil, depleted by centuries of cultivation, in another factor accounting for the poor unit yield of Indian farming. Artificial fertilisers have their use and are going to be provided in an increasing measure. Under the prevailing conditions of Indian farming, however, of the average soil and the kind of crops raised, it is likely that the benefit of this aid to agriculture is exaggerated. The value of organic manure is even today indisputable. A comprehensive plan today of appropriate collection and adequate distribution of that manure for use on cultivated soil is likely to yield much better results, without any untoward consequences which might need their own counteracting at a later state. Indigenous and organic manure, to which the land has been accustomed for generations is likely to yield immediate results and as such should be developed as intensively as possible.

The Mechanisation of Agriculture by means of tractor-ploughing or mechanised harvesting, may well be deferred until the unit of cultivation has been substantially enlarged and the condition of farming entirely re-modelled. At the present time, the New Investment of capital in Agriculture is needed, more in regard to Irrigation by wells or tanks, better collection and distribution of organic manure, and scientific reclamation of culturable waste, than in a large-scale improvement in tools and implements of cultivation.

Another direction in which capital investment in Agriculture will be fruitful is in regard to cattle supply, not only for ploughing the land and drawing the water from wells, but also for intensive development of the subsidiary industry of Dairying and Milk Products. India has disproportionately large cattle wealth; but the yield from this source is disappointingly small, utterly out of proportion to the number of cattle. Of the total number 60 per cent. of the cattle are practically useless and unproductive, being a burden on the rest of the milk cattle as well as upon the country as a whole.

Given the religious susceptibilities of the people in this country, the elimination of useless, over-age and unproductive cattle, leaving room to provide more adequate and nutritive fodder and other food for the cattle, has become a serious problem in itself. If we desire to increase substantially the yield from agriculture and its subsidiary and connected industries within the near future, this problem will have to be faced and solved.

With all these remedies and improvements, Indian agriculture can within a reasonably short time, make up for all the deficit that to-day makes our economy unbalanced and comparatively unprofitable. At present the available food supply of the Indian Union needs to be increased roughly by 10 per cent. to come to the pre-war form; and perhaps 25 per cent. to provide reasonable ration for every citizen in the land. Such improvement is not impossible to attain by the cumulative and simultaneous operation of the remedies suggested above.

The subject of mining being a specialised one we can make only general observations to the effect that latest capital equipment is badly needed to make the ores cheaper at the pit head; and then cheaper transport is essential if the ore so brought up cheaply is to be of any benefit to the industries. Better working and living conditions are imperative if the average production is to go up. In mining there is scope for extensiveness since India's mineral wealth has still remainded un-explored and so unexploited.

Question 5.—Several industries have been accorded after reference to the Tariff Board and on their recommendation, fiscal protection.

The principal method of this protection is to impose import duties on competing commodities imported from abroad, so calculated as to be sufficient to set off the difference at which Indian industry could market their product, including a reasonable profit to the proprietors, and that at which the foreign competitor could sell his wares in the Indian market, after bearing all the cost of production, including freight, insurance and banking commission. In several cases these duties have had to be very heavy, *e.g.* in the case of sugar. In some cases, these duties were made specific, which would increase the degree of protection when prices are falling, and *vice-versa.* Because of this possibility of rising prices almost undoing the protective effect of specific duties, the tariffs have had to be frequently revised. In cases where the duties have succeeded in building up the indigenous industry to a reasonable level, but considerations of revenue would not permit such duties to be lowered, excise duties have been imposed on home produced goods, either to divert a part of the benefit of such protection to the primary producer; as in the case of sugar; or for promoting research to improve the quality of the protected produce; or purely for additional revenue. In almost every such case the protective duty has been granted, initially, for a limited period. Protection, however, has not been altogether dispensed with every time the initial period has ended. The combination, very often, in one and the same duty, of the protective as well as revenue producing principles has not proved invariably happy for either.

Other forms of aid also been provided for given industries, particularly in regard to ensuring better quality of raw materials by special encouragement to scientific research, as in the case of sugar, which also enjoys a very high tariff protection. Direct financial subsidies or bounties have not been very popular with the Indian Government.

The system of preferential rates on Railways or shipping freight has also not received attention worth the name. The railways being public monopolists of the State with heavy capital investment were not worked primarily as

Public Utility Service, but rather as revenue yielding asset for the State which depended in a very considerable measure upon the surplus obtainable from this principal form of Inland Transport under public ownership to make up its deficit in the ordinary budget in time of depression or during the War.

As for the carriage of goods by sea, along the coasts or overseas carrying business, Indian shipping had a very small share in this business; and what was obtained was rather through such portion as the foreign competitor had to yield in the face of growing national sentiment by specific agreements than to any deliberate fostering and development of this service by sustained assistance by the State to Indian enterprise in this field. There being no shipping business worth the name owned, manned, and controlled by Indian enterprise, and the foreign shipowner would not suffer his service to be used for the purpose of fostering and developing Indian industry. The manipulation of the freight rates in favour of or for concealed protection local industry in the coastal and overseas carriage of such goods was beyond the keen and sympathy of the then Government of India. Much less could the Shipping enterprise itself of Indians receive any sympathetic consideration by Government while it remained under the domination of competing powerful non-Indian interests.

The transport of grain involves, it may be added, carriage of a very heavy commodity which is relatively low in price, and yet occupies a great deal of space. It admits of carriage in large quantities over long distance; and the larger the quantity the easier the carriage or lower its cost. Carriage by road or rail is bound to be several times dearer than carriage by water, mainly because of economic factors that need not be detailed here. For a country of the length or seaboard of India, and with the available traffic in grain, coal or raw materials so considerable and constant as we have in this country, it would obviously be much more economical wherever such traffic can be diverted to sea routes in place of inland carriage whether by rail or lorry.

It would, therefore, be not the least part of a properly organised economy to organise, distribute and allocate the available traffic for carriage so as to assign to each form of transport that particular kind of carriage which is most appropriate for its own peculiar organisation. In that reorganisation carriage by water transport, whether along the river or along the coasts, even for the local trade of the country, would be found to be much more economical, wherever it could be diverted on a comparatively competitive basis. With modern equipment of cold storage and proper preservation of grain, and with the modern speed of vehicle, there need be no danger apprehended for any cargo of this kind suffering because of the perishable nature of the commodity.

It is unnecessary to add more details of the growth, under such condition of unwilling encouragement, or industries which have received some half-hearted assistance or protection from the State, under the new Fiscal Policy adopted in 1923. This Policy of "discriminating Protection" was so discriminating against Indian enterprise in practice, that it seldom protected that venture. Such as it was, it was more than counterbalanced by British enterprise converting the new policy to their own advantage by claiming to be on a part with Indian nationals, and succeeding in getting a statutory bar against any form of discrimination in favour of competing Indian enterprise in the Constitution Act of 1935. It was further neutralised, so far at least as the most formidable competitor of Indian industry was concerned, by forcing India into a system of Imperial Preference within less than ten years of the new policy being adopted.

The sub-joined tables of production and equipment of certain Indian industries amply bear out the argument advanced above.

TABLE II.

As for the "directions of industrial development" since the new Fiscal Policy came into action, the most noticeable change is of course the growth of established industries like Iron and Steel, Textile, Cement, Sugar or Matches. These, however, have grown on established orthodox line as shown by their

volume of production, and the number of employees, character of equipment, or the number of establishments. The question for enquiry rather is whether they have grown to the maximum possible size that could be expected of such industries in view of the availability of our local raw material and cheap labour supply. The figures of imports and exports of the principal commodities including the products of the protected industries, given in another Table, speak for themselves.

(*See* TABLE IV).

India does not aspire to capture foreign markets by exporting the products of her protected industries. She has no desire to dump her wares on foreign lands and prevent the growth of *their* local industry. But eschewing such ambitious objectives, she can well aim at securing her own domestic market for her own industrial output. After 25 years of the policy of Discriminating Protection, India has not been able to achieve for her own local industry complete command of the home market; she cannot provide full employment for her surplus population pressing unduly upon the soil, in her own productive industry. She cannot build up all the essential requirements, key industries, or vital services, like Shipping, which are indispensable to enable her to maintain her national independence integrity and security.

The only industry which may be said to have come into being as a result of the new policy of fiscal policy, is the Sugar Industry. It was almost non existent before 1930; and is now able to produce sufficient to equal pre-protection imports. More essential industries, like Iron and Steel, Machine-making and Machine Tools, Heavy Chemicals, or the basic industries of Transport, like Locomotives Coach or Wagon production and the production of their parts and accessories, Automobiles of all types and for all purposes Ships and Aircrafts, are either still struggling, being but partially developed or we have yet to make a beginning. Such steps as have had to be taken under the stress of the last war may have done something to start such industries in this country. But once the War need was over, the preceding Government returned to its policy of apathy and indifference, if not that of positive hostility to Indian enterprise. And the threat of impending Depression, gravely affecting India's public finance, in conjunction with other factors noticed elsewhere have made it impossible for their successor to devote special care to those industries, in anything like the proportion to which they are entitled. The result, therefore, of the Fiscal Policy adopted since 1923, in developing our industrial potential, both in volume and variety, cannot be said to be very encouraging.

Mention may be made, in this connection, of the damping effects of the Budget presented by the then Finance Minister, Mr. Liaquat Ali Khan in March 1947. The heavy rate of taxation on incomes imposed, reaching up to almost 95 per cent. in the case of individual incomes of over 3½ lakhs, including super-tax surcharge; the capital gains tax; the aftermath of excess profits duty, and other smaller detail viewed in the background and the general spirits of that Budget, had a most disquieting and discouraging effect. A degree of uncertainty was introduced and heightened all the more by the reports of conflict of opinion in the innermost circles of the supreme Government. The doubt and hesitation thus introduced have continued even now, which the Industrial Policy enunciated by the Government of India on April 6, 1948, guaranteeing a breathing space of 10 years, so to say, for private enterprise in vast industries has not been able to undo.

Question 6.—The answer to this question depends very much upon the ultimate and definite objective goal of development expected to be achieved.

The central objective of national Self-Sufficiency, atleast in vital and essential requirements advocated above has naturally its limitations. We must not lay excessive emphasis on the possibility of working up all available and potential raw material to supply our own market within our own frontiers. Not only we may not be able economically to achieve this objective in every particular, we must also face the fact of growing modern international dependence and mutual obligations which would be incompatible with such an ideal

being rigorously pursued, by such a country as ours. The new aim of securing the greatest possible degree of economic co-operation between nation's demands that each country should keep its programme of local development within reasonable limits, and without being incompatible with its neighbours and customers. Scientific advancement, new discoveries, new inventions render inherited skill and traditional enterprise in particular fields obsolete. New processes, new machines, new equipment substituting for old methods and devices often render once very profitable enterprise utterly onerous and unremunerative. Even the primary sources of production, namely, Agriculture, is now-a-days, exposed more and more to the threat of substitutes being produced by scientific means. Synthetic rubber for real caoutchouc, oil from coal, beet sugar, rayon silk, and even some new fibre which would take the place of jute, are actual or potential examples. Industry, moreover, tends to be more and more inter-dependent. so that the finished product of one industry becomes the raw material of another. These necessitate an ever widening division of labour which makes the several countries of the world integral parts of one world economy. The latest example of this kind may be found in the ilmenite sands of Travancore. which, until now, used to be exported in the original condition as raw material for being worked up abroad. By a recent Agreement, however, with American. industrialists, the ilmenite and other sands are processed here and exported for final utilisation in the paint industry in the United States. There are two standards of measuring such development, namely :—

(i) The possibility of working up, within the country itself, of all its available and potential producible raw materials whether sufficient for own market as regards the commodities manufactured out of such raw materials, or in excess of such requiremnts. It must be remembered, however, that any such demand is progressively expanding with the growth of Industry and better diffusion of prosperity. Demand cannot, therefore, be taken to be rigid and fixed for all time; nor can supply through industry systematically protected and actively developed can always remain static. This objective must, therefore, be construed even if adopted as the guiding principle of the National Fiscal Policy, must be taken to be elastic in a certain degree.

(ii) Alternatively, the aim of such policy may be the development of industry at least to the point where the entire local demand is satisfied by the home production, making allowance for its progressive expansion, and increasing purchasing power of the consumer. This sounds a more reasonable goal; but even here there is room for elasticity in interpretation.

It must not be forgotten, however. that besides these two objectives, there is the consideration of providing sufficient volume of trade, both import and export, or cargo, as to maintain a reasonable volume and variety of shipping for the country concerned. The imports and export represent the deficits or surplus production of the country, which must lead to international trade, however, insistent the country's policy may be in regard to self-sufficiency. It is such trade which would inevitably develop also the country's shipping.

These two are not mutually exclusive, as regards the optimum development of the Industrial Potential of a country like India. It is possible to reconcile the claims of the domestic demand to be supplied in as large a degree as possible by indigenous production providing full employment for its available labour, raw materials and technical equipment, with the aim of utilising and working up the whole of the available raw material produced, or possible to produce, at home by improved methods. This aim, if achieved, can equally well provide full employment for the country's labour. technical skill, scientific knowledge, and capital equipment. Production then may be irrespective of the volume of local demand. The surplus of such output would be available for export, either in exchange for equally necessary domestic requirements not profitably producible at home; or simply to maintain trade connection with other countries and offer concrete proof of the desire for international co-operation. Judged by either of these criterian Indian industry cannot yet be

said to have developed sufficiently to vindicate the new Fiscal Policy since 1923. This is not due to any inherent defect of that policy but rather to the very hesitating and half-hearted manner in which it was applied. The tabular statement subjoined indicated in general the extent to which certain selected industries produce and supply Indian market, and the extent to which they can be developed still further within a reasonable time to supply still larger volumes of local demand, provide greater and more varied employment to Indian labour and capital, and to work up our own raw materials to the final stage of finished article ready for consumption.

(TABLE III).

(attached)

It may be added that the Table has been compiled following the recommendations of the several Panels of inquiry regarding the scope for development in particular industries. Those Panels were appointed by the Planning and Development Department of the Government of India between 1945 and 1946, and on which Government have also announced their future policy. Further action in this direction is held up, for the time being, because of unexpected handicaps of the new national Government. Cooling down of the zeal for intensified development of indigenous industry to meet war-time needs may also be responsible for that situation.

As regards the several items on which the question requires specific answer, it may be mentioned that :—

(a) The lines of manufacture, which may be considered essential, may be listed to include, basic industries which are the parent of other industries; or Key industries which are important items in all round development of the country.

This group includes Iron and Steel Industry, in all its variety of products; coal, the manufacture of machinery and mechanical equipment of all kinds for modern factories or workshops, together with their parts and accessories; machine tools and instruments of precision; heavy chemicals, and industries connected with the manufacture of ammunition, armament including modern weapons of all kinds for offence and defence required for present day warfare; and the foundational industries of transport by land, air or water and communication service. The production within our own country of railways material and accessories, including locomotives, wagons, carriages and coaches; their parts, accessories, and equipment; automobiles of all sizes and for all purposes of trade or travel; ships, both for commercial and naval use, in all sizes, shapes, and functions, under the present conditions of overseas commerce and national defence; and aircraft for the same purposes.

In most, if not all, of these lines of development this country is still deficient. The result is that our imports have to be very much inflated. The cost is unnecessarily and disproportionately high for normally running these services and operating these industries, the basic requirements of which are to be imported from abroad. If, however, we desire that the import trade of India be more rationalised, and consist mainly in articles or commodities which cannot possibly be produced from our own resources, it is absolutely necessary that all the available local resources are fully developed and worked up through all stages to the ultimate consumer. If the country is deficient in these basic requirements, they must be, of course, obtained from abroad to help build up the national industry in these categories. But a definite time limit will have to be fixed for such building up process to reach its required height to make the country independent of Foreign imports.

Modern industries, it may be added, are so inter-connected and inter-dependent that the raw material of one industry is often the finished product of another. This is an endless chain wherein it becomes impossible to distinguish the primary from secondary production; and intermediate from final consumption. Under these circumstances, the development of one industry suitable to the conditions of the country, or vital for its security, may necessitate the simultaneous growth of several others which have to serve as accessories or ultimate consumers.

The only limit to such expansion may be found in our own available resources of raw materials, technical skill or capital equipment. The raw material may be, at a given moment and in certain categories, limited, and incapable of expansion at least for the time being. But, even in this case, the possibility must not be overlooked that much of the basic raw materials even if limited at a given moment, are capable of improving in quality and increasing in volume, so that while the industry working up these raw materials is being developed to the optimum degree where the whole of the raw materials available at the start are worked up into finished goods, the quantity and quality of the indigenous raw material may also be increased and improved to meet the next stage of development and expansion. Improved mining or cultivation, which at present may be lacking but which may soon be adopted, would yield better crop or mineral. But when every allowance is made for such improvement, there may be a physical limit to increased or improved production of raw materials within one's own country; and that may set a limit upto which only the local industry, however, important and essential, can be advantageously developed.

We have hitherto emphasised the utility of protection to indigenous industry, as if it was to work up our own raw materials into finished goods. Under conditions of present-day economy and the inter-dependence of all forms of industry, it may quite possibly be that certain processing industries, which are not merely working up raw materials but intermediate also, may also require protection. Granting all this, we must not lose sight of the fact that India is now an independent sovereign State; and as such she must make all the provision she possibly can to develop certain basic or vital industries which are indispensable for our very existence whatever the cost. And these industries must, in the period of their infancy, so to say, must be fully protected as and when required.

So far as India is concerned, there need be no fear of any such inescapable limit of the required raw material, at least for developing our industries to equal the local demand. Much more clearly, there is no such absolute limit to the available labour; on even technical skill and capital equipment, indispensable for the adequate development of modern mechanical large scale industry producing primarily for local consumption. It may be that at any moment our labour supply is not efficient enough, as compared to more advanced countries. It is also said that our capital equipment is either not sufficient, or not of the same standard of efficiency in production as in other competing countries. No doubt in both these there is room for improvement, as will be shown below when answering other specific points in this question. At this stage it is only necessary to emphasise that the limits or deficiencies, or handicaps in these respects, even if admitted, are neither so rigid or incapable of alteration, as to preclude any possibility of developing all round industry, if an energetic and consistent fiscal policy is adopted and enforced.

So far, however, as one of the most vital, basic or key industries for the country's transport industries is concerned, *viz.*, shipping and ship building, it must be stated that this country continues to be backward and deficient in this matter to an unpardonable degree, for no irremediable lack of these requirements. Our backwardness in this behalf is due, not to the absence of indigenous resources whether of raw material, labour, or local demand. As mentioned already, it is due almost entirely to the relentless opposition and cut throat competition by foreign vested interests in the field; and the sympathy and support of the then Government to those alien interests. Throughout they acted in flagrant prejudice to the indegenous enterprise, the moment it appeared on the scene as effective competitor.

The target fixed in this respect of the shipping tonnage deemed reasonable to being this business on a proportionate scale, is *two million tons.* This would suffice to secure a fair share in the coastal trade of the country as well as in the overseas commerce. This tonnage cannot and need not necessarily be all built immediately within the country. An active policy, however, of developing ship-building of the modern type within the country has already been accepted. But the single modern shipyard, capable of building ocean going ships of 8,000 tons each and started under the stress of wartime shortage in

ships, is struggling hard and painfully to maintain its very existence. The vessels it has built so far are naturally costlier than similar craft obtainable from more established shipbuilding yards of Britain or America. This may be explained partly by lack of sufficient technical skill and experience, but in the major part it has to suffer because of insufficient industrialisation within the country, and the consequent need to get parts and accessories from an intensively seller's market. And that, too, without any backing worth the name from the country's Government, notwithstanding the fact that they are committed to establish three modern type ship-building yards in the country.

Our immediate requirements, however, in the matter of adequate shipping for the coastal and overseas trade, is quite modest. The heavy cost of construction in this country, having to import a good deal of the basic materials, parts and accessories for ship-building from abroad, renders it desirable to obtain the immediately necessary shipping by purchase from abroad from the surplus stock of other countries, like the United States. Even if those ships may not be as economical in initial or operative costs, they would be better than having no ships of our own until we build ourselves. The objective here envisaged, has been accepted by the new Government. Its implementations, however, is proceeding at a much slower pace than is in the best interests of the country, though we recognise the Exchange difficulties that prevent full realisation of this aim.

Meanwhile, factors are at work which make even the existing enterprise more and more handicapped, and the service more and more difficult, and losing for the ship-owners to render. Unless more active and energetic steps are taken to keep alive and stimulate the existing enterprise, it is likely this very essential service, and a key industry may be stifled, or not develop to the optimum degree desirable in the long range interests of the country's commerce, and its national security.

(b) *Volume of production.*—The statistics given in an earlier table should suffice to answer this point. Industrial production taken collectively, is still much smaller than the primary production from Agriculture, its connected or subsidiary industries. After 25 years of the so called protectionist policy, there is yet no sign of that balanced economy which would distribute the burden of employment evenly. Whether National Self-Sufficiency atleast in vital and essential requirements or balanced economy, be the objective of the Fiscal Policy, it has so far achieved neither of these. Poverty is consequently widespread, and seemingly incurable.

(c) *Overhead & Operative Costs.*—No reliable statistics are available to indicate the relative proportion of these items in the total cost of production. The Managing Agency system of Joint Stock enterprise in India, dominating the largest section of modern-type organised industry today has been in some quarters held responsible for the disproportionate incidence of this item, especially as it does not bring corresponding economy or efficiency in production. On the other hand, the system has been claimed to provide very important aids of facilities for the continuous and profitable operation of an enterprise. Finance at need by the use of the agent's own credit, if required, not only to tide over working difficulties but also as initial capital; business connection for marketing economically; technical experience for operating complicated mechanical devices and equipment, and taking risks in the initial stage as well as in the course of the business. It may be a moot point in some cases if the Commission or consideration demanded for these services is at all commensurate with the value of the service rendered. But it cannot be denied that the Managing Agency system has been mainly responsible for whatever achievements the country has to its credit in the industrial field. There is no alternative agency which can replace it and undertake the work of promoting, underwriting and financing industries. There is no organised industrial banking and the Industrial Finance Corporation at the centre is not prepared to underwrite share capital. The ordinary banks are prepared to finance only relying upon the financial standing of the Managing Agents. There is also the consideration that some well known name, associated with an enterprise as Managing Agents, provides attraction for capital, which may ensure the initial success of that enterprise, that would otherwise have not even come into being. In view of these the system of Managing Agency cannot be discarded now and will have to be continued for a reasonable period

of time at least. We are of course opposed to the principle of heredity in Managing Agency. The system can be improved also by giving representation on it to financiers, administrators and technicians.

It is, however, not beyond reason to expect that, under popular and responsible Indian Government, the conditions may change very soon. Government themselves have set an example by reducing top salaries of their highest category of public servants, fixing more reasonable level of normal increment to the top, and a living wage to the lowest grade. The example thus set is bound to react, in course of time, upon private employers in industries, commerce, or their accessory and incidental services. The claim of private industry for fiscal protection or other assistance would become unanswerable, if the private owner of such concerns is able to show all possible economies they can effect have been made, and all possible efficiency they can achieve has been realised. If in spite of that foreign competition makes it impossible for them to exist, every ounce of protection, aid or encouragement they need must be freely given.

(d) *Quality of management.*—The contribution of skilled management to make an industrial venture successful has been recently recognised, in an adequate measure, by Indian capitalist enterprise. Competition with foreign enterprise technical complications of new ventures, and the conditions of fiscal protection of particular industries, or of state assistance made employment of properly trained, experienced and qualified personnel on the managerial side as important as on the technical side of each venture. Economic and efficient conduct of an industry or business is a condition precedent to its success. But even if this principle of sound business management has at last come to be recognised, it still governs mainly the relatively subordinate posts.

In proportion, however, as the size of each enterprise grew ; in proportion as the need for co-ordination and integration of mutually connected or dependent enterprises began to be perceived and in proportion as the all-round value of skilled and qualified workers began to be understood as a guarantee of success, the quality of management inevitably began to improve. The conditions moreover usually imposed for the grant of protection to any industry made it necessary for every unit in that industry to secure trained, experienced and really qualified management. At the present time, therefore, in protected industry, India, taken as a whole, does not lack in suitable personnel, properly qualified and adequately experienced.

This does not mean, however, that there is no room for improvement in this regard. A welcome and noteworthy feature of the present Government policy, and of public opinion in general, is to establish proper training institutions for each different kind of enterprise.

In the early days, moreover, of modern industry in India, when the technical training facilities were lacking in the country special facilities were demanded for training suitable persons abroad. Indian opinion has always insisted, in all Government contracts for stores upon a condition for training Indian technicians in their works. It has likewise demanded that the products of such Indian training be employed as soon as available in Indian or foreign enterprise working in this country, as a condition precedent to their being permitted to carry on their business, or receiving protection or aid. This condition is not, however, universally observed. The progress, therefore, of Indianisation in the superior branches of technical or managerial employment of suitably trained persons is relatively slow. Inasmuch, however, as the number of such specially trained personnel is still small, the problem of employment of specially trained national personnel is not causing the same degree of anxiety as the broader problem of employment for educated youth in general has caused in the last generation or so.

(e) *Supply of Capital.*—It is commonly alleged that Indian capital is shy for investment in the modern productive industry worked by power-driven machinery on a large scale, and engaged in large scale production as much for home consumption as for export. The direct contact between the producer and the consumer, which was characteristic of the days when these industries were working on a relatively small scale for known local market has disappeared.

and production has become more and more for an indefinite market, whether within or outside the country. The average Indian capitalist of those days with relatively small amount to invest fought shy of such investment mainly because he was unfamiliar with the technical side of the new type of industry. The marketing of its produce, likewise or the business side of that industry was under conditions also unfamiliar to him. The one guarantee of success in competition was lacking for Indian enterprise in industry as the foreigner was more forward.

In the early days of British rule in India, therefore, Indian capital kept away from the newer type of Industry, and confined itself to the easier role of financing local, small scale industry, or conducting local trade.

In proportion, however, as the nationalist consciousness grew, and more and more Indian enterprise came forward to take charge of new industry, local capital was also attracted in small doses. With a modicum of protection since 1923 to such enterprise in selected industry, capital investment began to expand. Figures given elsewhere, in reply to an earlier question, indicate the investment of capital in the leading Indian industries. Most of this is Indian capital, though foreign and particularly British investment in Indian industry has not disappeared. Indian capital investment in modern industry is steadily expanding since 1923, though even now it is not in proportion to the vast leeway to be made up, and the immense resources awaiting development.

The institutions and devices, moreover, which help to mobilise and collect the available capital for investment as soon as it is formed and direct such capital into appropriate channels, are also in an elementary stage, still, in this country. Banks and credit facilities are confined to a small section. It is perhaps also true that our financing institutions have either insufficient resources to provide enough funds for productive activities or lack confidence and adventurous spirit to finance them. It is therefore necessary to re-adjust our credit structure to enable our banks and insurance companies to lend under necessary safeguards increasing support to industrial enterprises. The predominance moreover of finance capital rather than investment capital works against a much larger volume of permanent investment in relatively less profitable enterprise is unavoidable. To correct these our inherited handicaps, and to discover, mobilise and employ all available as well as new capital that is being formed, specialised institutions, devices, and properly trained personnel are necessary. The institution established last year by the Government of India of an Industrial Finance Corporation, specifically designed to provide industrial finance is an example of the progress necessary. However, if, this initial handicap is to be effectively removed, there should be similar institutions in all provinces. If adequate investigation is made of the sources of capital and of the capital still remaining unemployed, or locked up in ornaments and jewellery, by the richer classes of Indian society, and effective steps taken for its investment, a comprehensive plan of intensive industrialisation may not suffer much for lack of the necessary capital. But to facilitate rapid industrialisation of the country Indian capital needs to be supplemented by foreign capital. Suitable conditions must be provided to attract such capital to come into India, but there must be suitable checks on the undesirable activities of foreign firms in India as otherwise large foreign combines with world-wide ramifications and vast resources might operate in our country to the detriment of indigenous industries run by nationals of the country. It may be worthwhile to reiterate here the Organization's view that such foreign capital as may be required by the country should be secured preferably in the form of loan from abroad on equitable terms under guarantee from the Government of India. The proceeds of such loans should be directed to such productive channels as are most beneficial to rapid economic development of the country in line with the Government's policies of planned industrialisation.

(f) *Availability of Raw Materials, Fuel and Power.*—Raw materials for the leading industries of India are not lacking at least so far as the targets fixed by official panels, appointed by the Planning and Development Department of the Government are concerned. Figures given earlier in these answers concerning the extent to which the leading industries have developed in this country,

under even a modicum of encouragement or protection accorded by the Government of the land, indicate that the lack of raw materials will not be a serious handicap or impediment to many of these industries.

Figures given in another table above indicate, however, that in regard to some industries, like cotton or jute, there has been in recent years, and particularly since the partition, a decline in the volume of raw material available within the country. The factors which have brought about this decline are not impossible to remedy. By intensive cultivation and scientific farming or mining it is possible to improve production of such materials within the Union of India. It is possible also to put more land into cultivation, and make that land more productive per unit that has been the case so far. A radical reorganization of all the primary sources of production—Agriculture, Forestry and Mining—is necessitated under the altered conditions and unless that is accomplished in respect of the primary needs of food and raw materials, the very existence of this country would be at stake.

Where, however, despite these efforts, increased production of the requisite raw materials, in the required quality and quantity, is not feasible within the country in a short time, it is possible to supplement home production by import from our neighbours across the seas, both East and West, who are better situated in this behalf than ourselves. Egyptian and Uganda cotton, Pakistan jute, Malayan rubber, Burma rice, oil or wolfram, are not impossible to obtain, even if we do not go further East or West, and seek in America or Europe, China or Japan what we cannot produce at home, or get from neighbours and customers nearer home.

Difficulties of exchange, now impeding our foreign trade affect particularly the trade with the so-called "Hard Currency" areas. They will not materially obstruct the trade in these materials, which concerns countries mostly accessible, and from which the required quality and quantity of these materials can be obtained.

True, these countries are themselves embarking upon planned projects of their own national development. But in those programmes increased and improved production of such materials occupies a very respectable position. Their own industries to consume these raw materials will take time to grow. The present surplus of other raw materials may thus be easily disposed of to India with mutual advantage by what time we in this country also improve our own rate materials position. Under these circumstances, the shortage for the time being of some raw materials need not be considered to affect our leading industries, nor prejudice their development to the optimum suggested or target fixed by the Panels.

The principal source of power supply to modern mechanised industry in India today is coal. Our present supply of that mineral is inadequate to meet all the need of the progressive and intensive industrialisation. Hitherto that deficit used to be met by supplementary fuel from our forests. But forests have their own use and role in our national economy; and so restrictions may have to be imposed upon reckless using up of wood fuel from forests. Indigenous coal production, however, is steadily increasing; and though not yet sufficient to keep pace with the growing demands of modern power-driven industry. Coal from Bihar, Bengal and the Central Provinces, provided a fair proportion of steam power necessary for operating all our modern mechanised industry. New methods and instruments for improving coal production, moreover, are now being considered, and likely to be applied in the near future. This particular handicap, need not, therefore, be overemphasised.

We have already pointed out in an earlier occasion the advisability of utilising all available water transport for carrying bulky cargo which cannot afford the high freight of railways. The most outstanding example is that of coal or grain which can be carried in bulk and which can easily be supplied to meriting provinces by sea transport. On the sea-board or easily accessible therefrom are also situated the principal industrial centres of the country which would require coal as fuel. These would find it much more economical if this fuel is supplied to them by sea transport from Bengal, Bihar or C.P. collieries,

Finally, the handicap in this source of power is felt more because of transport bottleneck, than because of its own deficiency. Movement of this bulky commodity from the minehead to the factory or workshop which requires this material is slow because of wagon shortage, slow turn round, and the usual labour troubles.

Improvement in the transport service by land, and much more by water, is thus generally admitted to be the prime need for remedying the present position. Steps are being taken we are told, to improve the railway transport which suffers the worst from congestion, worn out equipment, and labour troubles. So far as shipping is concerned, not only is the carriage of a bulky commodity like coal relatively cheap by water; it is possible to supply and supplement the domestic supply from outside sources, like Africa or Britain field. But, for this, we must have adequate shipping of our own, to be able to command and manipulate the tonnage to any given end at any given moment. It cannot therefore be emphasised too much, and repeated too often, that one of the greatest and most urgent needs of a progressive and expanding national economy of the size and the potentiality of India is to have an upto-date, adequate and efficient transport service in which shipping will occupy no secondary position. With a coastline of 4,000 miles, and with coal freight running into millions of tons, every year the vital importance of this industry in our national economy, in the process of building up and being developed, cannot be stressed too much.

An important supplement (which may even become a substitute) for the power available from coal is electric energy. The present output of electric energy by the existing hydro-electric works and other sources of producing electricity is comparatively very poor. Large projects, however, are now in hand for harnessing the flowing waters of our principal rivers which are expected to increase very substantially this indispensable adjunct to modern industry. It is much more economic and efficient than steam power generated from coal or wood fuel. Being a public monopoly in generation and regarded as an essential public utility, it is likely to be supplied at comparatively lower rates than private producer supplies it to-day. It may be that the capital equipment of our existing industries worked by steam power, would need to be radically altered to facilitate the use of electric energy in working the plant, machinery and equipment. But the economies resulting from the use of electricity as against steam are so great in almost every instance, that even wholesale capital replacement of plant and equipment of these industries would be more than made up by the savings in fuel cost in a few years. The new projects of producing electricity would, however, take years to be completed. The growth of expanding industry ought not to be impeded for lack of this essential requirement.

Finally, a new source of power alcohol made from sugarcane waste or as well as from other wild products of forests in India is already engaging attention on a large scale. India is relatively poor in the native supply.

(g) *Availability of high grade technical ability.*—This is the one factor in which so far as modern mechanised industry is concerned, India may still be said to be deficient in the requisite technical training and experience. The aggregate volume, of scientific manpower is, according to a Report at the Science Congress of 1947, by no means small. But much of this personnel is engaged in teaching only. The necessary personnel, needed to staff and manage the work of new industries or expansion of existing industries, in consequently lacking or in short supply. Foreign technicians have, therefore, to be imported; and many of latest expansion or extensions, like the projected Steel Plant, the new power projects, production of telephone instruments and equipment, locomotive and automobile works, as well as heavy chemicals and industries concerned therewith, have to be helped by their advice or active employment in the initial years.

A welcome feature of the present administration in this regard is the resolve to develop in India high grade Training and research institutions, side by side with the projected industrial development. The lack therefore we now feel of Technical skill in the required volume will not be a handicap in the near future.

As in the case of raw materials, moreover, local deficiency can be remedied by import from abroad. It is particularly easy, in this connection, as well as economic to get from those war torn countries of Europe and from America which have a super abundance of such personnel unable to find employment in their own country, aftermath of war, the skilled technicians and experienced scientists we need for the time being.

German scientists and technicians, are available in large numbers. They are believed to be efficient as well as economic. This difficulty, therefore, which is after all of a temporary character, can be easily overcome, and need not be made an excuse for delaying the progress of new industry or expansion of existing ones. The system of getting our own young men suitably educated already, in foreign factories or workshops, with the help of State scholarships is also being tried. Its greatest benefit, however, would be realised only if careful plans are made in advance for their employment when they return after receiving such training, so that both the trained individual and the country's industry may benefit.

The need for trained Indian personnel for shipping is becoming the greater as now it is becoming difficult to recruit certified officers and engineers from foreign countries.

In the particular case of Ship-building, the necessary technical personnel is not entirely lacking. Nor has that been urged as an excuse for the present backwardness in that vitally necessary for the nation. For the manning of our shipping, the necessary training institution of Deck Officers was established in 1926; and facilities were extended to Marine Engineering in 1935. Lack of suitably trained personnel to staff and work our shipping service cannot explain the yet undeveloped state of that service, a quarter of a century after the Mercantile Marine Committee had recommended an early establishment of a modern, adequate ship-building industry in India, and progressive expansion of her Mercantile fleet to take a fair share of her own carrying trade.

As regards the personnel for ship-building, the number of foreign technical men required is after all very small. The Vizag Shipyard began with about a dozen Englishmen of all grades, and their number has been since reduced to seven in a Yard employing 4,500 workers, skilled and unskilled.

(h) *Supply of skilled and unskilled labour.*—So far as unskilled labour is concerned there is, indeed, no lack. But the conditions of work in a modern factory or workshop, and the alternative attraction of the traditional occupation in agriculture to the bulk of these workers, militates against steadily increasing industrial labour, and the efficiency and productivity of the industry, it is employed in. It is unnecessary to go further into the factors which affect the regular supply of efficient labour in modern industry.

So far as skilled labour is concerned, apart from the factors mentioned above under the preceding item, skilled technicians are rapidly increasing in number. The system of Apprenticeship in many of the technical trades is being widely adopted. The progress of the industry, in so far as it depends upon the adequate supply of such labour, is not particularly handicapped.

The institutions, however, of technical training, and the organisation of instruction and methods of training there adopted, leave still much room for impovement. The process also of co-ordination between the supply of such trained labour, and its permanent employment in productive industry remains yet to be achieved to the point where there would be no avoidable wastage of such skill. Immediately after the war the Government of India embarked, upon an intensive policy of getting trained abroad large number of highly educated youths. But there was no simultaneous plan of industrial development or expansion to absorb these young men and women after they received the training and returned to this country. A large number of them, consequently remains either unemployed, or is employed in positions and on work not at all in accordance with their training and experience. This is due to the lack of careful planning in advance. It is easily remediable; and when the disparity is remedied, industrial advancement in so far as it depends upon the skilled labour, would no longer be hindered.

(i) *Efficiency of Labour.*—The efficiency of Indian labour in industries already established is generally admitted to be relatively lower in comparison to the more advanced industrial countries, and as judged by out put. The fault lies, not so much with the capacity of the workers, but to his insufficient education and training. The usual conditions of work, and the general habits and customs of the people, also do not make for over zeal or efficiency. The plant and machinery which in many cases are worn out or obsolete, naturally do not yield comparable results. The continued domination of an alien race for over a century, and ceaseless exploitation of the land and its people for another's benefit has engendered a feeling of indifference which unconsciously colours the thought and work and general attitude of all classes of our people. The workers share that sentiment in their own way and apply it all unconsciously to their work. They lack a sense of indentity of interests in their employment; and so cannot put out the best that lies in them. Unfortunately, however, even the will to do so is lacking. The war-time experience, however of modern enterprise established in this country under American management showed that, man for man, and with comparable conditions the Indian worker was able to yield more or less the same results as his American prototype. It gives sufficient ground to hope that, with improving conditions of work, the was able to yield more or less the same results as his American prototype. in other countries.

Question 7.—(a) This question dealing with a very large sector of our national economy. It is impossible to be epitomized in the space of an answer to a single question.

Small-scale and cottage industries are still a considerable and important feature of our national economy, providing employment,—part time or whole time for very large numbers, and meeting the demand of a fairly large section of our domestic market. Only a very few of the existing industries are yet mechanised, working on mass production basis of standardised articles for an unspecified market. And even in those industries the small-scale producer is by no means extinct. The most notable example is that of the Indian cotton Textile industry, the oldest mechanised, the largest employer of factory labour, capital investment, and value of material produced. Nevertheless the hand spinner of cotton yarn, or the hand-loom weaver, in the peasant's cottage still numbers hundreds of thousands, if not millions. In iron and steel, cement, sugar, leather work, silks and woollens the cottage worker still continues to carry on his ancestral or traditional industry, without modern machinery, without borrowed capital, without hired labour. In non-mechanised branches he still holds a monopoly.

Whether this type of industry is comparatively economic to work specially in modern mechanised industries developing on large scale basis, is another matter to be considered by itself. The place, however, of the Cottage Industry in the aggregate economy of the country and in several crafts is unquestionable. For the moment at least, when there is a great shortage of the goods they produce, when new capital equipment cannot be got for expanding mechanised industry, and when they help to meet a good part of the local demand for consumer goods which their mechanised counter parts cannot provide their utility cannot be denied, their integral role in our national economy cannot be questioned. Not even the most ardent advocate of mechanisation in all industry can advocate their immediate liquidation. The Cottage Industries would, however, be more useful if their organisation is placed on a more efficient footing; and they are worked more economically in the matter of tools, material and labour. At the present time they are in the hands of small men who are unacquainted with market conditions affecting their own production, who are unable themselves to take full advantage of all the facilities in Transport or Finance available, to them, and incompetent to master and give effect to technical improvements or innovations occurring in their craft, even if worked on a small scale as cottage industry. And that is not for lack of public sympathy with them. Ever since the Congress started showing special attention to the cottage-worker, particularly the hand-loom weaver and cotton spinner, public sympathy and a desire for more active aid to such workers are not lacking. But the competition of large-scale mechanised

industry, commanding undeniable economies, has effectively impeded their revival on any considerable scale. They have indeed no problem of labour discontent, as they are owned by the individual who is both owner and worker. But cottage industry is usually subsidiary or off-season employment when the principal occupation of Agriculture does not demand whole time attention. The work in the industry thus naturally becomes intermittent; it suffers in regularity of supply, or standardised quality. Its product, therefore, cannot command certainty of a definite market. They have, however, credit difficulties, lack of adequate working finance, and generally absence of organisation for purchasing raw material, stores, or implements. It is unnecessary to add, that in an old country like ours, which has been long accustomed to a variety of small-scale, individual industries, the maintenance of both the large-scale modern type mechanised industry and of the cottage industry simultaneously is not only not impossible or undesirable: it is, as a matter of fact, indispensable for a balanced economy of the country. Our people are so accustomed to supplement their income from land,—which is even today the principal source of livelihood for more than 4/5ths of the population,—by part time employment in small-scale industry, that no amount of intensive industrial development can altogether do away with such industry. In other countries, too, the simultaneous maintenance of large and small-scale industries is not unknown *e.g.*, in Japan, Switzerland, Sweden, which rank among the highly industrialised nations of the world. The advent of electricity, moreover, facilitating the decentralisation of power-driven machinery so as to enable its employment in cottage industry promoting economic production, further supports the smaller scale cottage industry, whether as supplementary occupation or even as the primary source of livelihood. In the Fiscal Policy of the country, therefore, it would be undesirable to concentrate exclusively on the development of large-scale industry to the prejudice or extinction of the small-scale industry. Such an attempt would hurt both, and incidentally would prejudicially affect the general economy of the country.

So far as Fiscal Policy is concerned, Cottage Industry has benefitted automatically from protective import duties, imposed to foster the corresponding large-scale industries. It is safeguard upto a degree against foreign competition along with the large-scale indigenous industry. The degree of fiscal protection, however, recommended by the Tariff Board and accepted by Government in specific cases,—being calculated from the standpoint of the large-scale, mass producing, mechanised industry, is not always adequate to the needs of the Cottage Industry in the same branch. But the main danger to the cottage industry comes from the protected mechanised large-scale indigenous industry. If these small-scale industries are to be retained as integral and permanent feature of our national economy, their handicaps in respect of creditor finance, marketing and organisation, as well as technical training will have to be remedied. before they can offer any substantial promise of adequate and regular supply of standard quality.

(b) (i) Hitherto the relation of small-scale and cottage industry towards agriculture was that of a subsidiary to the principal. Agriculture was a primary occupation absorbing all time, energy and experience of the country who took up cottage industry only as an off-season employment supplementing the limited income from the principal occupation. It is, therefore, an urgent task of our national economy to reorganise both Agriculture and small-scale industry, so that that occupation may be either better dovetailed into the principal task, or the two separated from one another so that each may thrive in its own way. So long as Agriculture remains a seasonal occupation with units of cultivation of microscopic size, it would be waste of energy to effect a complete separation: or think of scientific development of the cottage industry with the principal source of livelihood. An alternative remedy would be to find employment in modern large-scale industry and its ancillary services for the surplus population on land,—the surplus being determined according to some definite standards of measurement,—so as to relieve agriculture from disproportionate pressure, secure full time attention to its connected small-scale industry, and bring about a more balances economy in the country as a whole.

Even if Agriculture is reorganised to provide a more sustained and remunerative occupation the year round for the population deemed adequate

for that purpose, complete separation of cottage industry or small-scale industry from Agriculture would be brought with disadvantage. The women for instance of the agricultural population, who may not be employed full time in actual or direct task of land cultivation and crops gathering, may find profitable employment in these part-time small-scale industries. Similarly, those persons who possess special skill in this regard would also be more profitably employed in this direction. The problem of Agricultural reorganisation and resettlement, therefore, has its limitations which cannot be ignored.

(b) (ii) In so far as the small-scale or cottage industry products compete with the corresponding large-scale industry, the former would be at a certain disadvantage because of the greater economies achieved in the latter. Labour and Equipment engaged in the latter are more productive per unit; work is better organised and perenial; raw material more abundant and better chosen. Even the market, unknown as it is, is more certain than with the small producer. The latter takes all the risks of his enterprise, and provides all the labour; while the worker in the former takes no risks and so can devote more wholehearted attention to his stipulated time and type of work.

At the same time, it must be noted that in so far as the small-scale industry is the special domain of high by skilled craftsmanship, or artistic creations, there will always be a market for its product which would be largely irrespective of comparative costs. How far such industry is distinguished for its craftsmanship or artistry that would over-ride considerations of relative cheapness, is a matter of specific review and assignment of the value of each such industry's product, which it is impossible to attempt in this answer. But the claim must be recognised while assigning its proper place to each of these two categories of manufacturing industry as and when the entire economy of the country, including both large-scale and small-scale industry as well as Agriculture come to be properly planned, organised, and coordinated *inter se*. The respective sectors wherein each may flourish without prejudice to the other and wherever one may feed the other would then be mapped out, assigned, and observed in practice to their mutual benefit and the collective advantage of the country as a whole.

The task of such allocation or assignment is not necessarily impossible. It only requires careful investigation of the factors and conditions relevant and patient consideration of the suitability of each type for the particular market which it has to supply, with due regard to all other relevant circumstances or factors affecting both production and distribution.

An alternative function that may well be assigned even in planned economy, to small-scale industry or enterprise,—not necessarily confined to the rural and cottage industries,—is in the task of repair, and replacement of modern machinery or instruments of daily use gradually finding their way in almost every home. The "servicing", as it is called of modern mechanical vehicles of transport, or the electrical apparatus, or other gadgets or devices in factories and workshops as well as homes, like the radio or gramophone, stoves and kettle, machine tools or motor cars, is recognised necessity even in the most advanced and industrialised countries. This work is particularly the domain of small-scale enterprise; and Indian craftsmen are not wholly lacking in the necessary mechanical skill or understanding to tackle such jobs. Every modern industry, even in those countries is not competent to effect its own repairs, renewals, or replacements, for all the plant, accessories, or equipment it uses. Those who do this "servicing" for them are different which naturally work on small-scales. Within the short time these services have come into use in India, the Indian artisan has displayed a remarkable aptitude in acquiring knowledge of the parts and their mechanism in all these instruments or gadgets, like the telephone, typewriter, and a host of other implements of household as well as occupational utility, too numerous to be detailed here.

In a properly planned organised and integrated economy, therefore, room may well be found assigned to small-scale industry side by side with large-scale mechanised industry in the same field. The former would be reserved of technical skill inherited from generations past. With the help of decentralised machinery and diffused industry thanks to electrification of the

countryside, this process can be and has been intensified **to the general** advantage of the country. It was noticeable in India during the War specially when the Iron and Steel Industry most important for munitions, was over worked in all countries unable to supply any outside market. At this time local smithies were utilised for producing steel, which otherwise would be the mainly for such servicing, repairs, or renewal, of parts and accessories, at any rate where such talent or energy cannot be utilised for producing artistic ware or special craftsmanship.

The problem in either case of the relationship of small-scale or cottage industry to Agriculture or large-scale industry is thus a matter of co-ordination, and allocation of respective spheres of utility to different sections of the main division of national economy. A scientific National Fiscal Policy could go a long way to facilitate such assignment or allocation and distribution of appropriate spheres of work to each of these categories. But in that case the meaning and scope of the comprehensive term "fiiscal policy" would not be confined only to according tariff protection to suitable or selected industries, but would have to be given a much wider connotation which the rooted ideas of the present-day administrators of India may not be able quite to appreciate.

Mention has already been made of the tendency particularly characteristic of modern Japanese industry to split up large-scale industry into its component parts and conduct the same on a cottage scale. This is helpful not only to provide the widest possible employment of the country's labour force, but also ensure economical use of material, saving in transport and encouragement product of large-scale workshops.

Even in British and America, the most highly industrialised nations of the world, which needed shipping on a large-scale on account of heavy destruction of tonnage by submarine warfare, parts of ships were manufactured inland and assembled together at the ports into finished sea-going vessels. Altogether, therefore, the maintenance of small-scale cottage industry, side by side with the modern large-scale, power driven, machine-operated industry, is not only not incompatible with, but will actually be to the advantage of the country especially in an old settled tradition-ridden land like ours.

In the case of the shipping industry, we may well consider the sailing vessel or the country craft of today as corresponding to the small-scale industry in regard to manufacturing industries as a whole. All the characteristics of large-scale industry are to be found in the steam or motor vessel. It is usually fairly large in capacity with rapid operation and employing a large number of hired labour. It plies over long distances, carries cargo in bulk, and is, therefore, able to afford economies comparable to the large-scale manufacturing industry. On the other hand, the sailing vessel is usually small in size, hardly exceedingly, perhaps, 50 or 100 tons; generally plies along the coast, carries a small quantity of relatively cheap commodities, is motived by the natural force of wind, and worked by the labour of one or two families specialising in sea-faring provinces. The capital needed for equipment and operation is also comparatively very small, and the problems of maintenance and those arising out of the terminal facilities, labour needs, etc. are all of the same genus as those in connection with cottage industry. In time of emergency like a world War, it has given the same service as the cottage industry, to supplement production of such commodities as are impossible to be produced within the country in the quantity required, either because of the absence of the necessary capital equipment, renewal or replacement of machinery and analogous factors, or because of the sheer absence of raw material, technical skill and other such prerequisites.

Under such circumstances the sailing vessel helps even better than the cottage industry in supplementing the country's mercantile marine, and continuing the carrying trade of the country economically, expeditiously, and in the quantities required. This helps to maintain the equilibrium that would otherwise be wholly shattered.

It will accordingly be necessary to maintain this supplement or adjunct to the power-driven mercantile fleet, both for normal peace-time as well as war-time needs.

Question 8.—As already observed in answer to the previous question, under existing circumstances, the small-scale industry, helps materially to fill up the gaps which the output of the mechanised large-scale industry cannot meet at the present juncture. The difficulty of procuring the necessary machinery, its parts, or accessories, to renew or replace the over-worked or obsolete machinery in existing establishment, or which may be needed for new industries or to increase the units in existing industries, handicaps the large-scale industry far too much to expect immediate expansion and sufficient efficiency to meet the entire and increased home demand, and dispense altogether with the contribution of small-scale industry in the aggregate national requirements. Even if the Exchange difficulties, which dominate the present foreign trade of India, do not continue to be as acute as they are today, the procurement of the required machinery plant, or equipment, for establishing or expanding new or existing large-scale industries would be an unavoidable difficulty in the prevailing conditions in the countries producing such capital goods.

Every new industry, moreover, that has been established or proposed to be established by Government themselves, on a national scale, meets with this difficulty. Delay, therefore becomes inevitable in starting and working such industries. For the private *enrekreneur* this difficulty is far more serious. Hence while the present circumstances continue, the cottage industry functioning on a modest scale, and specialising in supplying the market in its immediate neighbhourhood must continue to hold the field even irrespective of artistry or craftsmanship.

(b) How long the present situation will continue to restrict output in the leading producers of capital goods in the world, and how long the present Exchange shortage would impede world trade is difficult to say. Any long-range planning, however, that can be foreseen at the present time, will not be able altogether and should not dispense with allowing considerable scope for small-scale and cottage industry, which the ardent enthusiast for mechanisation and standardisation is apt to ignore.

For the modern mechanised large-scale mechanised industry to succeed many conditions are required, not all of which are flourishing in this country today. Such requirements of the relatively small-scale industry, on the other hand, are easy to meet from local sources. In the long-range, therefore, such industry has a future, either as adjuncts to or supplementing large-scale industries or as specialising in art works or craftsmanship ; or finally serving as a kind of stopgap every time the product of large-scale industry is unable to meet local demand. Anyone of the three functions that the small-scale industry may continue to perform may keep alive the industry, which on strictly economic grounds considered in the abstract, may not hold its own in competition with the large-scale mechanised industry. Long-range planning, therefcre, of the national economy, paying its proper share of attention to the several sources of production for primary and secondary commodities, must not discard altogether the possibility of such industries going on side by side and without undue competition with large-scale industry contributing to the national wealth a fair proportion.

Attention is also invited in this connection to the pamphlet—Industrialization Scheme in Two Parts—published by our Organisation in July 1949 where the position of small-scale industries in relation to National Income has been analysed. It has been shown that income from small-scale or rural industries may be expected to rise from Rs. 250 crores to Rs. 500 crores in five years or Rs. 1.500 crores in ten years, if the Organization's scheme for rural industries is implemented throughout the country.

Question 9.—As already stated in answer to the preceding two questions, small-scale cottage industry would remain an integral part of our rural economy. It may be connected with or dependent upon agriculture for its

primary requirements, or may be independent of agriculture, except in so far, as it provides off-season employment to the agriculturist compulsorily idle during the months of the year when farming work is impossible, and helps substantially to supplement the family budget of the agriculturist.

In so far, moreover, as any small-scale industries are subsidiary to agriculture working up the primary products into more easily acceptable consumer goods, *e.g.*, Dairy produce or in any such manner connected with agriculture, their place in a rural community will be undisputed.

(a) While shortage continues in the most important items of daily consumption, the contribution of these small-scale industries cannot be neglected. They would, therefore, be supplementary to their larger counterparts, so long as at any rate, the country is not wholly mechanised or industrialised ; so long as the home and the school continue to be free from mechanisation, comparatively speaking ; and so long as there is some appreciation of art and craft in the products of such industries.

Of the industries which will be naturally and most easily subsidiary to agriculture the outstanding one is that of Animal Husbandry and Dairying, of milk products and every thing else made out of the yield of animals, dead or alive, Large-scale Dairies are, indeed, not unknown nor unpopular. But the natural place of cattle seems to be on the farm, where they would enrich the soil almost as much as they would take from it. The immense possibility of a well organised Dairy industry, and the numerous products that can be made out of such industry, is not yet as fully recognised by the Indian agriculturist as they might be. The principal source of edible fat—ghee or clarified butter, is derived from cattle. And though India is, generally speaking not a great consumer of meat, and, in any case, averse to slaughtering milch cattle, scientific breeding of cattle for food purposes, does not occupy very much the attention of the powers-that-be. In the present serious shortage of food supply in the country, all subsidiaries or supplementary food-stuffs would be welcome.

The same, may, of course, be said of pisiculture, sylviculture, including all the crafts connected with the working up of forest produce, bee-keeping and poultry farming. Sericulture is not regarded entirely as a subsidiary to Agriculture, though silk-worm rearing does depend to a large extent upon a proper cultivation and maintenance of the mulberry tree. The Woollen Industry is in the same category, and for many of its products is worked on a small-scale by the cottage craftsman.

Raw cotton is also an agricultural product. Its spinning and weaving has, for ages past, been a most flourishing small-scale industry, intimately connected with rural economy in this country. Recent emphasis on the place of the spinning-wheel and hand-loom as integral parts of rural—If not national—economy, makes the connection between Agriculture and this industry more than even indisputable.

Whether we regard the hand-loom industry as subsidiary to or independent of agriculture, in any case an integral part of our national economy,—it is one of the few industries which have been in the country from time immemorial, and which has possibilities of expansion and development notwithstanding substitutes or alternatives that put it in a class by itself, and demand continuous encouragement from the powers-that-be.

Almost the same may be said of leather goods based on hides and skins of animals that form the greater portion of the cattle wealth of this country. A good deal of this basic material used to be and is still exported, as is evident from the figures given elsewhere. The possibility of working them up into finished articles ready for consumption has been demonstrated by Indian as well as Non-Indian enterprise working in this country. This, too, would, therefore, not be so much subsidiary to agriculture as an integral part of rural economic in so far as it is used to supply local needs and the immediate market.

For the rest, industries which depend upon the primary production of land, mines, or forest, or of the waters in our rivers and the surrounding seas, may be organised and developed as part of the general economy of the country irrespective whether they are classed as subsidiary or independent.

As already observed, whether these industries are organised as subsidiary to or independent of agriculture, most of them do at the present time serve to make up a considerable proportion of the deficit in the country's requirements of the articles manufactured from them.

(b) Production from mechanised industry, whatever their possibilities is falling far short of the requirements of the country as determined by a reasonable standard of the necessities and amenities of life which must be assured to every citizen by a Government calling itself civilised. From this point of view, even such an important industry as cotton-spinning and hand-loom weaving, sericulture and silk manufacture and woollen, leather goods may be regarded as supplementing the production of the factory and workshop worked by power driven machinery. Products from the bones, hoof, hair, entrails of animals are largely cottage scale work.

Generally speaking, industries concerned with the repair maintenance or renewal of the parts of machines or instruments used in modern factories, vehicles, or other forms of home equipment, may be organised as supplementing the output of the factories and workshops. These may not be adding to the total volume of the production by themselves. They are, however, useful in enabling the main equipment of yielding the optimum results which, without their help, will not be able to render.

(c) In the pamphlet on 'Industrialisation Scheme for Rural Areas' the Organization has given a variety of small-scale and cottage industries from which a choice could be made for rural areas. It is not necessary to repeat them all here and a copy of the publication is sent herewith. A few examples may, however, be mentioned and they are : confectionery—sweets, brushes, hats, and caps, laces, laundry and cleaning clothes, carpenting and cabinet making, Agarbathi making, painting on planks and glass, pearl fishing.

Question 10.—As remarked in answer to another question, those small-scale or cottage industries which specialise in artistic production or skilled craftsmanship and which may be more or less unique in this country would be best suited for providing an export surplus. Thus carpet making and all analogous articles, carved work in wood and ivory of all kind, shawls and embroideries, even now command a good market in foreign markets. The producer needs to be organised properly, and his work needs to be standardised so as to admit of clear cataloguing definite quotations, and regular supply of required quality. The artist is in all countries, and has been all through the ages, not a business man ; and so, if in this commercial age, this great handicap of deficiency is to be effectively remedied, the State would have to come to the assistance of such producers to enable their creations to find a profitable market, if not at home, at least abroad in those countries which have learnt to value such products.

In a detailed representation on the subject of promotion of export trade in products of cottage industries, the Organization has suggested among others following measures :

1. Setting up of a Committee of three to five members with adequate staff (i) to ascertain the existing and the probable future demands particularly from dollar and hard currency countries of products capable of being produced in India, (ii) to ascertain the sources in India from where such items could be procured.

2. Constitution of Provincial Export Promotion Group or Boards with liaison in the districts.

3. Creation of a Central Board to Co-ordinate the working of different Provincial Groups or Boards.

4. Establishment of an Export Credit Corporation to provide credit facilities.

The following items may be cited as a few instances which may be considered, as specially suitable for export purposes :

Miscellaneous Products

1. Metal Works from Jaipur.
2. Ivory Works & Carvings.
3. Sandle Wood Carvings and other products.
4. Toilet Soap (Khus, Sandlewood) and other Indian fragrance.
5. Ladies' Sandles.
6. Sari.
7. Jaries.
8. Snake, crocodile and tiger skins.
9. Indian carpets—Sikkim.
10. Kashmir Works.
11. Attar Perfume.
12. Coconut shell products buttons.
13. Indian Art Works.
14. Wild Animals.
15. Furniture (Steel, Rosewood).

Food Products

1. Mangoes—canned and fresh.
2. Guavas—Jelly and Cheese.
3. Jackfruit, Custard Apple.
4. Nira and Tody (bottled similar to Champagne industry of France; here research by the Technical Institute is necessary under Government control).
5. Mohoura Jambul, Sweet Lime Juice (similar to Sherry and Port Wine Industry) same as above.
6. Promfret and other Indian fishes—canning (research necessary).
7. Indian sweets—canned and hygenically prepared Jallebi.
8. Spices.

Question 11.—Protection of large-scale mechanised industries engaged in mass production of standardised articles, results in the first place, in shutting out foreign competition. This will automatically afford protection to the products of the Cottage Industry in the same field, though that protection was not originally designed or calculated primarily for their benefit.

On the other hand, in so far as the successful development and expansion of such protected industry raises the demand for and the cost of the raw materials on which these industries are founded, it makes the cost of production for the corresponding small-scale industry proportionately much higher; and so places it at a disadvantage in the competitive home market.

The relative cheapness, moreover, of the mass produced and standardised article of large-scale industry adds to the disadvantage and handicap of the small-scale producer.

For all these reasons those small-scale or Cottage Industries, which it may be deemed to be in the interests of the aggregate national economy to maintain, wherever their artistry, craftsmanship, or ability to supplement the local production, and make up the present shortage of supply, will have to be encouraged and protected even against the domestic competition from large-scale industry. This would not easily be effected by any fiscal discrimination in their favour. But the help the State can render by proper organisation of such industry, providing more efficient tools or equipment, obtaining easy credit facilities, and arranging for proper marketing will go along way to make up for the disadvantage of competing with mechanised production.

Question 12.—(a) *Supply of Raw Materials.*—The difficulty in regard to the procurement and provision of raw materials for cottage industries has already been noticed. The assistance that the State can render would be most effective in the shape of securing some sort of a quota, or acknowledging preferential claim on the local production of stated quantity, reserved for the small producer. If the latter is properly organised into co-operative craft Societies, the aid given by this means would prove much more effective. It would at the same time be much easier for the State to render. By establishing a quota or making up a reserve of a given portion of the raw materials of suitable for such artistic or skilled product the cottage producer's output and efficiency would be

much improved. The prices too may be within limits so that the disadvantage noticed above under which the small-scale producer labours in competition with the factory product, would be to a large extent mitigated.

(b) *Supply of Technical Skill.*—In this matter, Tradition has accumulated enough understanding and technique for the ordinary cottage worker in India to stand in no very great need of outside assistance. In fact, the technicians, versed in modern methods and machine work may not be ideal for effective assistance to the traditional worker. In the selection of material pattern-making or working up of a design, blending of colours, and any super-erogation that may be needed, the hoary tradition handed down from generation to generation of an endless chain of workers stretching back into dim vistas of prehistoric past, is more than adequate to meet all the requirements. What is really needed is general education, and better information on the scientific conditions affecting the industry in this country and outside so as to enable the accumulated experience of the draft to find better expression in a form more appropriate to the present age.

If additional technical skill, however, is to be provided in the shape of organisation and the business side of the industry and use of modern inventions suitable to small-scale industries, *e.g.*, electrical appliances it would be not only welcome, but would be a material help in improving the conditions of the cottage workers. Sound business-like organisation including standardisation of quality, pattern, texture, and design of the product of cottage industry particularly for the foreign market, so as to ensure a steady demand and export of such products with the help co-operative or Government agency working through Directors of Industries in the several States and Provinces is amongst the first pre-requisites of the successful maintenance of Cottage Industries in all fields in which they still struggle for existence.

(c) *Their Technique of manufacture.*—The remarks made under (b) will, if anything, apply more forcefully here. The technique commonly pursued in the handicrafts of this country is traditional and ages-old. It is, generally speaking, adequate and sufficient, not only for the ordinary requirements of the immediate market in the neighbourhood of the workers, but even for markets more specialised and demanding better craftsmanship or greater artistry.

This is not to say that there is no room for improvement in technique particularly in labour or time-saving methods of working. But such improvements would be more feasible if these industries are organised and operated as full time occupations for the workmen concerned, and not as subsidiary supplementary of season trades as compared with the primary occupation of agriculture.

Here again, is a problem in organisation rather than of remedying any particular handicap or deficiency of the work or the worker. And this organisation must be part and parcel of the aggregate national plan rather, than a part of special arrangement relating to any particular industry. For it would only be in a comprehensive national plan that due place would be assigned to each of these forms of production; and protection encouragement or assistance could be guaranteed to them so as to add to the aggregate prosperity of the country as a whole and at the same time make for the success of the craft.

(d) *Their structure and organisation.*—Having spoken all this time of the great need for proper organisation in grouping the work and workers into suitable economic units; in providing them with adequate and appropriate raw materials, tools and equipment; in obtaining sufficient credit or effective marketing facilities it is unnecessary at this stage specifically to dwell upon the structure and organisation necessary to maintain and develop Cottage Industries to the optimum level. Our organization's industrialization scheme for Rural Areas already referred to points to the solution in this connection.

(e) *Supply of Finance.*—This undoubtedly is a great handicap of the small scale worker both in regard to the initial and in the matter of working capital. Being naturally a small-scale producer, the worker is living from hand to

mouth. He cannot afford to lock up considerable part of his capital, supposing he has any, in carrying on the process and accumulating the products of his own industry. If he is to be enabled to find suitable opportunities for promptly marketing his products, and live according to a predetermined standard during the interval, adequate and regular financial help or credit facilities are indispensable.

These facilities may be best provided for purchasing raw materials, tools, implements, a place of work, to the stage of realising the sale proceeds of finished goods. The best way to do so would be co-operative credit Societies of craftsmen, integrally, linked up with the entire credit structure of the country, culminating in the establishment of such central institutions as the Reserve Bank or the Industrial and Finance Corporation of recent date.

The cottage worker, moreover, is, generally speaking, heavily in debt, for in the years of inflation and rising prices, as well as the decline in crop production that followed the end of the war whatever savings the agriculturist made during the war, and whatever relief he had obtained by paying off his debt, has been more than counterbalanced by, perhaps, new indebtedness that he has incurred. Any spell of prosperity, said to have been experienced during the war, is probably already dissipated; and the debt remains almost an eternal burden. In almost every Province and in many a State since 1939 legislation has been enacted to bring relief to the indebted agriculturist. In practice, however, the benefit of such legislation has been very scanty, and the hold of the money-lender, though weakened, is by no means at an end. If the new credit facilities are not to be wasted in lightening or removing the unproductive burden of past debt, those who provide such help would have to see it that they are utilised only for new production, and not for meeting ancient indebtedness.

This is not to say that the latter does not need any relief. Some sort of legislation or administrative action is needed to tackle the problem of the accumulated ancient indebtedness of this class. We are concerned here, however, primarily with the credit facilities necessary for organisation, maintenance and development of production, whether it is subsidiary, or as principal contribution to the aggregate wealth of the country. And in this regard the suggestion made already of some specialised institution with special devices, forms and instruments to mobilise, collate and provide both short-term and long-term credit to the cottage worker seems to us to be best calculated for achieving the objective in view.

(f) *Marketing facilities.*—A number of products have already come under special legislation providing or regulating marketing of several rural products. The most important of these is certificate of quality, transport and storing of the commodity, and incidental credit. Though most of these relate to agricultural produce, or products of industries subsidiary to agriculture, these industries are concerned with what may be called manufactured goods, which greatly demand appropriate marketing facilities if the producer is not to be needlessly handicapped, cheated or exploited dues. The experience gained under this marketing legislations may well be utilised *mutatis mutandis* for this purpose. Marketing Boards must be made essential features of marketing of the goods.

(g) *Any other form of assistance.*—Under the forms and devices of State Assistance, protection, or encouragement to cottage industry already mentioned, no reference has been made to guaranteed State purchase at a fair price of the whole or part of the produce of such industry. Nor has any stress been paid on easy and convenient transport—rapid and suitable *e.g.*, refrigeration in rail wagons and road cars. The State is a large and growing consumer of a large variety of articles a good many of which can be advantageously, or even economically, produced by the cottage worker. Without unnecessarily burdening the country as a whole and the average tax-payer it would be possible to introduce a system of preferential or assured purchase of cottage industry products by the State and its public servants, which may secure a certain definite market, so to say, for these wares. It would suffice to ensure continuous employment which is one of the greatest handicaps the cottage worker has to face to-day. The State demand for these articles moreover is likely to

grow because of the changing conception of the State, and increasing scope of State activities and functions. And the State in this case does not mean only the Central Government of this country and all its ministries, directorates and offices; it also comprises all the Provincial and State Governments, municipalities and district boards, as well as a growing host of statutory corporations specially established for specific purposes, like the Damodar Valley Corporation, the Industrial Finance Corporation or the Electricity Board, the Water Board etc. These in their aggregate will make a demand for the products of cottage industries, the dimensions of which it is impossible to gauge to-day.

The assistance, therefore, which the State can render by legislation and executive action would be much too considerable to be ignored. This suggestion may, therefore, be sympathetically considered by this Commission. In the case of Services, rather than industries, this kind of assistance may take the shape of taking up, on a Transport enterprise for example a certain guaranteed business as freight for stores and troops or subsidy for mails, or special fare for passengers. There are many other similar forms of such aid, which could be easily provided if only there is a will to do so.

(h) *Possible competition with large-scale industries.*—We have already referred to this possibility while dealing with the relative position of large-scale and cottage industries. But even there a suggestion has been made to the effect that it is possible to set apart a specific sector of the public economy for the benefit of either of these two categories. And even if that be not readily feasible it is possible to reconcile their conflicting interests if the national economy is carefully planned, and the several sectors are demarcated or correlated mutually so as to minister to their common advantage and at the same time stimulate national prosperity.

Question 13.—The small-scale industry would, on the basis given above, be primarily used to supply the balance of domestic needs not supplied by large-scale industry. Only in the case of some special artistic production or craftsmanship, which makes the product somewhat unique would it command any portion of the export market. In the latter case, trade agreements may secure where possible preferential treatment for such products being in a manner of speaking non-competitive and a speciality of this country. The small scale producer is *ex hypothesi,* poor in capital and credit resources; he is weak and unorganised inasmuch as he is an individual worker, scattered all over the land, and working without any expert aid to study market possibilities, make proper advertisement of his wares, and maintain standard quality to meet the various needs of the several markets he caters for. He may have hereditary or acquired skill and craftsmanship of a very high order. But in the commercial age in which we are living, unless he can advertise his wares properly maintain catalogues and contacts with both domestic and foreign consumers, he would not be in a position effectively to hold his own against the large-scale producer. It is, therefore, necessary that some kind of preferential treatment be given to him by Government, so that he may be able to maintain his ground, and carry on his craft on a little better than starvation wages.

We hope special steps may be needed to safeguard such special craftsmanship or artistic creations. Preference may be shown to such industry by way of securing adequate and suitable raw material, either within the country; or obtaining it from outside to enable the highest quality of such ware being produced. Financial assistance or credit facilities given to them should not be treated as in any way coming in the way of freedom of trade, if that be the objective of any such trade treaties.

Within the country, the products of these industries are likely to find their greatest demand. At the present time, as already observed repeatedly, they meet only the gap in local production. This deficiency may continue for some years before large-scale industry is able to meet the entire local demand even in the most advanced industries. But apart from this, some of these industries may deserve to be protected and maintained for their own sake for the craftsmanship and beauty of their products, which cannot be appreciated or survive in a regime of absolute free competition. Almost every protective duty takes the shape of import duty, generally on the finished goods, but sometimes also

on the raw material, such as cotton. The former is automatically protective and the latter guarantees a source of supply of the quality required by the smaller producer. A worker particularly excelling in quality of product must have the material of the quality and in the quantity he is accustomed to work with if he is to do justice to himself and to his customer. Even then he has his own handicaps and difficulties with regard to competition with the larger producer, both at home and from abroad. But he may be enabled to stand that competition if State assistance is provided to him in some such form including a guaranteed demand for this output. For this purpose it is of the utmost importance that the cottage industry should be properly organised districtwise or provincewise. That would help to encourage specialisation, standardisation and maintenance of quality which would counterbalance the other disadvantages of the cottage worker.

If a policy is adopted deliberately to keep alive, encourage and support small industry in cases where there are also competing large industries, protection to all of them by way of import duties would perhaps not suffice to secure them reasonable living conditions. Other measures like a proper supply of the necessary raw material, better organisation and credit facilities, and appropriate marketing arrangements would be needed. These are matters of domestic arrangement, in which foreign trade treaties would not be materially affected.

SECTION B.

Policy of Discriminating Protection and its Application since 1923

Question 14.—Not all the industries that could deserve and which had asked for protection, on this basis, received any adequate protection during this period. The basic aim of the Commission's recommendation seems to lay undue emphasis on the "burden to the community" involved any system of fiscal protection; and does not appear to give adequate weight to the countervailing factors resulting from the successful establishment of a protected industry.

Apart from that, the Commission's recommendations to investigate into complaints about certain obstructive practices against Indian enterprise adopted by non-Indian vested interests have not been properly dealt with during the period mentioned. The aim of building up our national economy to the point of self-sufficiency which is relatively under-developed, does not seem to have impressed the Commission sufficiently with its urgency. At the time that Commission reported the governance of India was in alien hands, the interests of whose nationals often went counter to the interests of India in such matters. That Government, therefore, naturally omitted to take effective obvious steps to build up, in all its sectors, aspects and items, and national economy of India to make her self-sufficient at least in vital matters and essential requirements.

For the present Commission, however, when the country enjoys full independence. and the primary, if not the sole, consideration of such policy must be the interests of India as an independent nation to adopt such a limited objective or outlook, will not be helpful to the fullest possible development of our national economy. While Government must ignore the burden of an active protectionist policy for intensive, all round industrialisation on the community as a whole, the resultant benefits of progressive wholesale industrialisation, and the consequent establishment of a more balanced economy should also not be under-estimated. The burden on the community moreover would be short-lived and steadily diminishing. The benefit, it is hoped, will be abiding and progressively increasing.

Industries of vital importance to the country's defence as well as to her normal peace-time economy stand in great need of protection, which, however, has hitherto been denied them—except under the very peculiar conditions of a world war. Chemicals and non-ferrous metals, to give but a couple of examples so obviously relevent, had not received, until recently, the protection which their place in the country's defence as well as peace-time economy demanded. Even the glass industry has been somewhat tardily taken up for protection this year, having lacked it all this while. Industries specialising in

the production of scientific instruments and apparatus of all kinds are yet other important examples of a key industry which has not received the measure of attention that it deserved. The automobiles and aircraft are more recent additions to the same list, while the group of armament industries, which would, in any case, be State owned may also be added to amplify the list of illustrations of the industries deserving protection but not getting it.

Of the particular industries which have not received the full benefit of the policy recommended by the Commission, and adopted by the then Government of India, or whose claims have been overlooked despite the accepted policy, is the case of the Indian shipping enterprise, including the basic industry of modern Ship-Building deserves special mention. Of the many restrictive practices, which the earlier Commission had themselves noted, and which have effectively prevented the growth of the Indian shipping enterprise to anywhere near its legitimate dimensions, the outstanding example was the "deferred rebate" system. In order to secure certainty of service to the shipper and continuity of custom to the ship-owner, the system was evolved whereby a certain portion of the freight paid on any consignment was reserved by the ship-owning company to accumulate as a rebate payable on certain conditions and after a certain time to the shipper. In the case of the principal customers this amounted to very large amounts. The ship-owning companies could refuse to pay over this amount to any shipper who in the next following season did not use the company's ships, but gave his custom elsewhere. This was an effective weapon in the hands of the established British concerns to prevent Indian shipping concerns getting any business at all even in their own coastal trade ; and as such was strongly resented by the Indian competitor when he came into the field. Notwithstanding, however, this strong opposition the system has not yet been legally abolished.

Of the direct encouragement by payment of special subsidies *e.g.*, for carriage of mails, stores, troops, public servants or labour needed in public factories or workshops there is still no sign, though each of these are recognised and recommended means of developing the enterprise.

The Mercantile Marine Committee of 1923 had recommended active steps like construction bounties, cheap loans etc. to facilitate an early establishment of an Indian Mercantile Marine by the creation of a suitable modern type ship-building industry in this country. All the conditions for such assistance or protection to new industry, which the Fiscal Commission had recommended were present, and are still present as regards this vital and indispensable national industry. The recommendation by the official committee was made 26 years ago. Nothing worth the name has yet been done to accomplish any part of this programme, except very restricted facilities to train the necessary staff in a local training institution. World War II rammed in still further the need for such an industry within India's own frontiers and run Indian enterprise. The post war acquisition of independent sovereignty by this country makes the establishment and development of such an industry within the country still more necessary not only for the naval defence of our shores, but also to serve as all kinds of auxiliaries in times of war for which we have today still to depend on foreign help. World War II had made the need very great and urgent but it was left for private shipping enterprise to establish a ship-yard building every year 3 or 4 ships of 8000 tons each. The post-war difficulties make even these modest beginnings of a truly infant industry gasp for its very breath of existence.

The last Fiscal Commission recommended that "raw materials and machinery be ordinarily admitted free of duty and that semi-manufactured goods used in Indian industries be taxed as lightly as possible". This recommendation too has not been implemented. Actually in a number of cases import duties on finished goods have been less than or equal to those on industrial raw materials required for making them. If higher import duties are being levied by Government in the case of some industrial raw materials for giving a fillip to local industries producing such raw materials, Government should see that such industries as are using those products as raw materials are not adversely affected.

Question 15.—The defects of this policy and its working have been indicated in answers to the several questions already given. It may, however, be reiterated here that the factors mentioned in the first of the three conditions laid down by the Fiscal Commission are only of an illustrative type. It was not the intention of the Fiscal Commission that any one or all of the factors should be necessarily present in the industry seeking protection. The Government, unfortunately, placed a too rigid interpretation on the condition and stressed in recent years that as a rule the principal raw materials required by the industry should be present in the country. Thus the glass industry's plea for protection was turned down on the ground that one of the principal raw materials, namely, soda ash was not produced in India, though the industry possessed all other natural advantages as would enable it to develop and establish itself on firm lines in the course of a few years provided necessary tariff protection or assistance was extended.

Question 16.—The conditions prescribed by the Fiscal Commission, and adopted by the then Government of India, for granting protection to any industry had been dictated by an outlook and objective wholly different from that which a national responsible Government intent upon rapid, intensive industrialisation of the country should possess. The demands of national security did not find adequate stress in the recommendations of the first Fiscal Commission. Nor were the possibilities of widening employment for labour by new industries, and increasing scope for investment of indigenous capital, adequately borne in mind. The ideal of national self-sufficiency in vital and essential requirements was far from accepted by them—and even if the Commission had done so, the then Government of India would not have adopted or given effect to their recommendations. The conditions, therefore, laid down by such a body and imposed by the then Government need not be accepted by those who have a radically different outlook and ambition for industrialising this country as rapidly as possible. Further the conditions have now changed. The era of *laizzez-faire* has given place to an era of planned economic development and hence the protectionist policy and its working will have to undergo the necessary change.

Question 17.—Chapter VIII of the Report of the Indian Fiscal Commission of 1922 lists a number of other forms of protection, encouragement or assistance to indigenous industry which have been adopted by the Government of India in varying degrees. For instance, the need for a technical bias in education from early stages, and more particularly training for technical work is now an accepted objective.

Organised education in India is commonly believed to suffer from too literary a character to be really serviceable in this regard. With the advent of basic education, the infusion of a technical bias is an accepted objective of all modern proposals for educational reform and expension. And we would suggest that with a view to create an interest in the sea and sea life and to provide a minimum knowledge of water transport among all sections of the people the text books for various scholastic classes should contain lessons of different types of ships, main sea-routes, chief articles forming part of the import and export trade of the country, sea adventures and wonders old and new etc.

Similarly the training of Apprentices for working an industry nowadays commands the ever-growing attention of the authorities. In the case of the Shopping Industry, for instance the Mercantile Marine Committee had recommended, as early as 1923, that in order to provide the Indian Mercantile Shipping with the necessary staff of deck and engine room officers, arrangements must be made within the country to provide training facilities for both these groups of the staff needed. A beginning was made in 1928 with the establishment of the Dufferin Cadet Training Ship; and young men turned out by this institution every year were to be absorbed in ships plying on the Indian coast, or having any share in India's overseas trade. The foreign concerns monopolising the carrying trade in Indian waters or the overseas trade of India demurred at first to any compulsory acceptance of Indian staff however well trained and certified. They made the excuse of existing contracts with their higher staff, which made it impossible for them to take on as officers Indian

trained in this country. Nor can the course of time and the example of the competing Indian concerns, may be said to have affected their original indifference, not to say hostility to their obsorption of the Indian cadets as they came out of the Training Ship. The demand, however, for this specialised service began to grow in course of time. It was particularly high during the war. Higher and higher emoluments were offered by Government till the situation has been so reversed that the Indian concerns suffer from a lack of suitably trained personnel and their programme of expansion is held up for want of such people. The goal or target for expansion in the present day Indian shipping is fixed at 2 million tons against the 150,000 tons now used by Indian-owned steamship companies. Those responsible to bring about such expansion within any reasonable time feel that they cannot themselves build in this country all the tonnage deemed necessary for giving Indian-owned shipping its full share of India's trade along the coasts or overseas. Even if they could build or buy second-hand so long as that tonnage was not adequately manned by Indians, it could not be called a truly Indian National Marine.

In the case of other industries, the policy of requiring suitable Indian candidates to be technically trained in all those enterprises, whose products the Indian Government purchases as Government stores, was adopted about the same time than the Fiscal Commission reported. A condition was inserted in all agreements of this nature and a larger and larger volume of such training was secured. But there was not simultaneously a pre-arranged plan for their employment as soon as the trainees came out. That complaint still remains so that the large number of Indian students sent abroad for such training in 1946-47 has proved a needless burden upon the Indian Exchequer, not withstanding the growing demand of local industries for such trained personnel.

Arrangements have been made in recent years for establishing such training institutions and scientific research within the country. It is a marked feature of the present Government policy in regard to every new modern industry or enterprise that they themselves undertake, or which they assist. Foreign experts are also invited to help start such industry and train up the personnel needed; but the results so far are not very satisfactory.

Another form of such indirect or concealed assistance is in regard to the economic rates of carriage of goods by railways or shipping. The railways in India are largely Government enterprise. They could therefore be easily used for this purpose. Even when they were worked by private companies, they were under the control of Government sufficiently to permit their rates being supervised by Government. The latter, however, have not yet realised, it would seem the possibility of manipulating railway rates in such a manner as to provide effective assistance or a concealed subsidy to the local industry. Where railways, in their own interest, cannot economically carry those goods cheap transport could nevertheless be secured if only adequate co-ordination between all valuable forms of this service, including shipping, was effected and the total traffic available at any time distributed so as most effectively to serve the various branches of industry and keep every form of transport system fully occupied.

If the present national and popular Government desire to use all available directions for assisting local industry, it is necessary to tackle the problem of organising co-ordinating and working all the different types of transport available in this country, and foreigners, both as regards the coastal trade and the overseas carrying business. These ships and their owners or operators were outside the control of the then Government of India. The latter could not fix freights and passage fares so as most advantageously to serve the long-term interests of all sectors or our national economy. Government frankly were not interested so much in developing Indian enterprise as to uphold and maintain the interests of their compatriots. They were accordingly more in sympathy with the foreign competitor of Indian ship-owner, and so they found more reasons to avoid these courses than to employ them, for the encouragement or safeguard of local industry. Whatever possibility there was therefore not only for allocating traffic but fixing rates in order substantially but imperceptibly to assist indigenous industry was lost or ignored. Apart from the question of

freight fixation to assist Indian industry, the time appears to have arrived to fix rates for the very maintenance of even such small Indian tonnage as exists today. Indian shipping circles have recently been made aware of a policy of non-Indian shipowners operating on the Indian coast of keeping the freight rates so low that economic operation is no longer possible for the owners. These non-Indian shipowners with their interests in other trades have means of maintaining themselves, but the Indian coastal operator would soon be devoid of profits or reserves that he would soon be going out of business. Under the circumstances, the best way to solve the difficulty would be to pay to ships on the Indian register plying in the coastal subsidy to enable it to survive the crisis.*

If the present national and popular Government desire to use all available directions for assisting local industry, it is necessary that the problem of organising, co-ordinating and working all the different types of transport available in this country, and distributing or allocating all available traffic between these several forms of transport in such a manner as to serve both the immediate and long-range interests of the country, including its agriculture, industry, trade and transport.

The Fiscal Commission of 1922 had made special reference to the possibility of reducing shipping freights, and avoiding such practices as "Secret" rebates. These were used by the foreign ship-owner plying on the Indian coasts to secure an effective monopoly of that business for himself. But, as already remarked, the Government of the day declined to take effective notice of such observations, and so the handicap continued.

Methods for safeguarding the local industry against the unconsciousable foreign dumping, such as the Japanese were guilty of in 1933-35, particularly in regard to cotton textiles, were stated to be barred by existing obligations, such as the Trade Treaty with Japan, which, it was alleged, precluded any discrimination in favour of Indian Industry with the competing Japanese goods. The latter were in their own market highly protected. They were assisted further by special bounties for ships constructed in Japan, or subsidies for carrying Japanese goods. The interest of the Indian consumer was made an effective excuse for non-interference in such matters. The safeguard of Indian industries, therefore, even though the basic policy had been accepted, could not be effected,—except perhaps by such devices as changing *ad valorem* duties in to specific duties.

Dumping, it was also argued, was difficult to prove as a fact, and still more difficult to guard against. The Fiscal Commission carefully reviewed the whole problem, and suggested such expedients as countervailing import duties on articles supposed to be dumped on the local market by the foreign competitor. The chief instance in which the Indian Government could have acted on these lines was the Japanese Textiles in the domestic market but the treaty obligations incurred by the British Indian Government were found to be incompatible with any such help to local industry.

Other forms of assistance like cheap loans for initial working capital, cash bounties or subsidies on the volume of business done, found no place in the Indian Fiscal system. On the contrary, arrangements in aid of British industry during the days of the World depression were concerned more with the establishment of Imperial Preference working in many cases to the prejudice of the Indian industry, and very rarely to any great advantage of any industry in the Commonwealth markets.

No Indian industry has been assisted by direct cash subsidy or indirect help in the shape of interest-free loans, or cheap capital or guaranteed dividend or assuring a certain market for the products of the industries assisted. In all such matters the Indian Government, right up to the transfer of power, was most reluctant or hesitant, except when the war made insatiable demand

* This suggestion of running subsidies for Indian tonnage on the Indian coast would seem to be preferable to the fixation of rates under which the advantage is bound to go to both Indian and non-Indian interests.

for Indian made goods or services. The establishment in 1948 of an Industrial Finance Corporation by Government is designed to provide such aid on business lines ; but, in the absence of a carefully planned programme of industrial expansion or development, consistently carried out, the success of such institutions cannot be expected to be very high.

Question 18.—(a) The well being of the community is implicit in the all-round development of every suitable industry in the country. It increases the volume of material wealth produced in the country, adds to the employment and raises standards of living.

The ideal of self-sufficiency, in vital and essential requirements necessary for an independent sovereign State, comprises much more in long-term view of the Fiscal policy than was accepted in the days when the Government of India was conducted in subordinate co-operation with the interests of the alien rüler. That dominating urge being no longer there Indian can shape her Fiscal policy to suit her own interests and requirements but also bearing in mind, secondarily of course—her international obligations.

The distinction between the producer and the consumer, moreover, which very largely coloured the outlook of the Fiscal Commission unnecessarily suggests a conflict which need not be there. It tends to grow fainter in a rationalised society and properly planned economy. For under that state of affairs, everyone would be a producer, actually or potentially, unless disabled by age or illness : and everyone would be also a consumer. What the consumer might be supposed to lose in the higher price of the protected commodity, he as producer would be able to make up by the wider volume of better paid employment. The distinction between these two classes is artificial, unnecessary and need not be overemphasised.

The safeguards, therefore, adopted in the interests of the community as a whole taken to be the consumer class while not utterly unsuitable should not be extended to the point that they would come in the way of effective and optimum development of suitable industries promising by their basic economic advantages would be self-supporting without any artificial props within a reasonable time. Moreover the interests of the community as a whole must have national self-sufficiency to as large an extent as possible particularly in regard to vital industries and essential services for the very existence of the nation.

(b) The dependence of the Government of India in these days upon Import-Export and Excise duties for a large part of their revenue has been materially modified in recent years. Direct taxation is rapidly taking the first place in revenue, though even now these duties continue to be an important contribution to the national budget. The possibilities, however, of direct taxation as an equal, if not a greater contributory to the Central Budget have been demonstrated by its recent growth, particularly during the war and post war years, in the shape of income and super taxes, excess profits, duty surcharges, Corporation tax and the like.

The protectionist system may, if carried to its logical conclusion result in the diminution of import of competing foreign commodities and consequently of customs duties on import and even eliminate any income from that source. Such logical exactness is. however, never attained. The most intensively protectionists countries, with thriving local industry, have continued to derive substantial revenues from that source; and so India need not apprehend any serious danger in this direction. Export duties have also their utility. If such duties fall on one's own raw materials, they would help to preserve the entire growth of the necessary raw material within the country for being worked up or manufactured into finished products by indigenous industry. A high duty, however, on domestic raw materials at point of export, may adversely affect the agricultural class engaged in growing them; and so much duties are, ordinarily, not imposed unless the raw material in question, is, like jute, a practical monopoly of the taxing country. The danger of encouraging substitutes for such articles, taxed on export by the monopolist producer, will have to be faced, though it need not be exaggerated. In so far as their burden is passed on to the foreign consumer, they may be unobjectionable. Excise

duties on any local produce are on principle undesirable. But if levied, as they usually are, to counteract the effect of excessive protection, they would be a innocuous source of revenue.

In proportion as export duties help to increase or improve home production of finished goods and industry develops within the country to the corresponding extent, revenue from income taxes on the owners or managers of such industry would compensate the Exchequer in some measure. Excise duties similarly on the products of protected industry which have a margin of protection larger than is warranted by competitive costs may serve the same purpose and be accordingly permitted.

On the Sector of the trade, moreover, which is outside the protectionist zone and which grows because of growing prosperity revenue duties may continue to be imposed. They will provide for that portion of the Expenditure Budget which cannot be covered by the receipts from direct taxation, and other sources. In proportion as trade comes to be more and more regulated by international treaties it will become more and more a matter of Barter; and then the role of the Customs Duties, in providing any substantial part of the central-revenues, would be wholly changed.

The modifications, therefore, made in 1938 in the general Fiscal Policy have led to the imposition of Excise Duties on the products of protected industry within the country whenever it was thought that the margin of protection offered to the growing industry and guaranteed for a period of years was in excess of the necessary percentage. The sugar and steel industries may be cited as illustrations of this argument.

The period 1923-29 was mainly a period of application by the industries concerned for protection, their investigation by the Tariff Board and experiments in fiscal protection to likely industries. The Tariff Board after investigation of the competing conditions in the light of the general policy laid down, recommended for or against protection, indicating also the degree and form of protection, or the appropriate manner of assistance to be granted. Government generally acted upon such recommendations; and the result was the commencement or strengthening of established industries.

Between 1930-34 World Depression affected all industries to such an extent that protection became practically inoperative, and the industries supposed to be so protected began to stagnate.

In the last period 1935-39 there was a revival in a manner of speaking which was rather hastened by the impending threat of war than because of any inherent strength in the policy of protection to Indian industry.

Question 19.—These deviations from the policy recommended by mere justice for those industries which had been established during the war, and provide a very considerable portion of the war effort of the then Government of India. Having been started during the irrestible urgency of war, cost was no consideration for these war-born industries, whether in capital equipment or working. They were worked to their maximum capacity in a wasteful uneconomic manner; and so their successful existence after the war, when once more competition from more advanced countries returned, would be all but impossible. Without the hope of some kind of an assured position, these industries would not have been established at all. Government, therefore, were morally bound to protect them even after their pressing immediate necessity of the war was over and the high prices paid during the war for such products were no more permissible. Government, therefore, promised them protection and assistance after the war, if they were soundly organised, run on business lines, and had a reasonable chance of survival and existence after a time. This deviation in policy was for a short time, and, therefore, Government's action in this regard was no more than just.

The guiding consideration, finally, which led to this modification was due to the long-range national interest, which, however, could not be fully attended to, if only short-term measures were recommended. Assistance or protection to those industries of war time origin, promised and granted for a short period of two or three years by the previous regime could not be denied by the present

national responsible Government of India which must look to the claims of national security in likely emergencies much more than their predecessor. The industries claiming such assistance, were, besides, of value even in normal times, *e.g.*, non-ferrous metals, like aluminium, brass, etc. They would have had a fair chance of establishment and maintenance with a little protection, under ordinary pre-war conditions had the war not intervened, and made their cost of equipment and production, including overhead and management charges, disproportionately high. Assistance to them consequently in this post-war age is a passing burden, if it be a burden at all.

Question 20.—The main defects lie in a relatively shortsighted aim or outlook governing that policy. The relatively limited term of protection granted to these industries will not help towards a sound foundation and enduring structure raised thereon. Such enterprise cannot make permanent plans for long-term existence in a competitive world. A policy of hand-to-mouth is inevitably encouraged resulting eventually more in dissipation of resources than in proper husbanding, utilising and developing the industry safeguarding by adequate protection.

SECTION C

Review of the effects of past tariff policy

Question 21.—Generally speaking, it may be stated that the indigenous industry has developed during the interval in all these respects. The brief note attached of the principal industries, which have received protection at one time or another or which have derived some special advantage because of the War or some other adventitious circumstance, shows the extent to which there has been great growth of the capital invested in the industry, and the productive capacity and total output of each.

India's national economy is essentially agricultural, nevertheless India was in the previous years eighth in the world's industrial countries. Today with particularly Germany and Japan out of the question India's position must be higher. The new orientation in the country's fiscal policy which began in 1923-24, gave some sort of a stimulus to industrial development with the very modest ambition of meeting a part of the home demand. The pace of industrialisation since then has been accelerated by the new policy of assistance and protection both by way of granting customs protection in deserving cases, and of giving preference to the products of Indian Industry in purchasing Government requirements. The prospects of continued Government help and anticipation of good profit stimulated a growing flow of private capital into industry. New capital invested in joint stock enterprise alone in the inter-war period was something like Rs. 150 crores.

Tables VII and III give the labour engaged and the estimated potentialities of our leading industries within 5 or 10 years, as shown by the targets suggested.

Imports.—The most important result of the policy of industrialisation adopted since 1923 was a noteworthy change in the ingradients of India's import schedule. Finished goods aggregated 84 per cent of the total imports into India, including Burma, in 1920-21. By 1936-37 the corresponding percentage had declined to 75. In values the fall was from Rs. 274 crores to Rs. 92 crores. This is partly due to the heavy fall in prices in the latter year. A still more striking development was the steady increase in the import of industrial raw, Materials from 5 per cent to 16 per cent in the same period. While the total value of imports declined by nearly two-thirds, the value of imports of raw materials increased by more than 10 per cent.

These tendencies have been greatly accentuated by the last war. In 1941-42 manufactured articles formed but 55 per cent of the total imports, while share of industrial raw materials rose to 29 per cent of the total imports.

While heavily importing foreign raw materials there was no decline in her exports of raw materials. Between 1920-21 and 1936-37 exports of industrial raw materials increased from 45 per cent to 53 per cent, while the exports of manufactured goods declined from 36 per cent to 26 per cent. This contract

is misleading as in the latter year there was a steep fall in the value of exports cotton and jute manufactures. The subjoined table IV and V gives the latest available figures from 1941-42 to 1948-49 both for Imports and Exports.

Before World War II Industrialisation meant mainly development of then existing industries, supplying mostly home demand for consumer goods. Very few new industries were established whether for capital goods, key industries. armaments or for processing the raw materials that were then being exported. During World War II however its immediate and urgent demands forced a radical change as shown by the decline in exports of raw materials to 28 per cent and the exports of manufactures has risen to 47 per cent. The exports of manufactured goods shows an increase, while the corresponding imports register a decline.

Direction of Trade.—Still more remarkable changes occurred in the direction of the trade. While in 1920-21, 61 per cent of the Imports came from the United Kingdom, in 1936-37 only 38 per cent came from there. The share of the other commonwealth countries increased from 5 per cent to 11 per cent during the same period. Other countries like Japan, Germany and the U.S.A. supplied 34 per cent of our imports in 1920-21 and 51 per cent in 1936-37. After World War II the share of the United Kingdom declined 21 per cent in 1941-42; but the other commonwealth countries improved their share to 40 per cent of our total imports, while foreign countries gave only 39 per cent, two of our biggest sources of supply,—Germany and Japan having disappeared. They have disappeared not only from Indian Import Schedule, but also from the world market, and it remains to be seen how far the place left vacant by them can be taken over by Indian Produce or manufacturers.

On the export side the United Kingdom share increased from 22 per cent to 32 per cent between 1920-21 and 1936-37 while the rest of the Commonwealth share declined from 21 per cent to 14 per cent. Other foreign countries relatively maintained their position. The war led still further to a decline in the share of the United Kingdom, a pronounced decline in the case of foreign countries, and a rise from 21 per cent to 30 per cent in the share of the Commonwealth countries. This is explained by the fact that Burma has become a foreign land, that British has changed into the best source of supply of capital goods we all need.

Bilaterism.—But the most radical change concerns India's international balance of trade. In all our ages past India was a creditor country exporting more on the balance than importing, except in famine years. Even after paying after the steadily increasing drain of the so-called home charges the balance remained in her favour which was met by a considerable import of Bullion, notwithstanding attempts at diverting that flow also to Britain. After the World Depression of the thirties, intensified by Britain's sudden and unilateral abandonment of the gold standard, India became a net exporter of gold on a large scale, thus meeting all her obligations despite a fall in exports.

During the world war II 1939-45 the position once again changed. Indian produce all kinds, supplies and services were progressively more and more in demand, because of the war needs of the Allies. Most of the sterling debt of the Government of India repatriated and converted into rupee debt, to facilitate the heavy excess of British war purchases. Notwithstanding the advent of the Lease-Lend programme, India continued to supply British and allies needs heavily, despite the shortage of shipping space and a whole host of regulations controlling exports. This brought about a heavy accumulation of sterling Balances in her favour in London, which are not even now paid off, though large amounts have been allowed to set off on account of war-time British stores and installations which cannot now be used or removed by her. India's serious food shortage and pent up demand for capital as well as consumer's goods for all these years has led in the post-war years to a growing deficit in her merchandise trade, which uses up the accumulated sterling whether as sterling or converted into hard currency.

Question 22.—The note given above would suffice to answer this question in general. As observed elsewhere in the earlier period of 1923-38 several industries were investigated as regards their claims for protection and in many

cases protection was given in one form or another. In 1938-39, 8 industries were on the protected list, out of which subsequently five have been removed. Only 3 of the major industries which received protection continued to do so.

In the period 39-45, World War II set up abnormal conditions which stopped any outside competition and at the same time increased enormously the demand for all sorts of commodities produced at home. All this added to the expansion and growth of industry.

This, however, after six years of war, suffered a setback, partly because of the disappearance of war expenditure of the British and Indian Governments in this country, and partly also because of the sharp decline in the productivity of machinery, plant and equipment which were overworked during the war. The country's transportation system also was responsible for this decline.

Iron and Steel.—The outstanding instance of an industry which has been definitely fostered by Fiscal Protection is the iron and steel industry, whose real growth has taken place in the last two decades. Because of this success, it has been removed from the protected list. Between the year 1932-33 when the regular collection of production figures started, and the year 1940-41 the steel ingot production of the country increased from less than 6 lakhs tons to more than 1.2 million tons. During the same period the output of finished steel jumped up from 442,000 tons to 925,000 tons. This development was accompanied by an expansion of the activities of various ancillary industries, like foundries, the structural steel, wagon building industries etc. Last named having received an early promise of preference from the railways. In 1947-48 and 1948-49 the industry showed at set back for a variety of reasons not connected with its inherent strength. But it is again showing signs of resurgence.

Textile.—The cotton textile industry is the largest of our modern industries. For a long time it was deliberately handicapped by the so-called countervailing duties. But the protection began in 1925 has enabled it to reduce the imports of foreign cloth from four-fifths of the home demand to one-fifth. Statistics given earlier are illustrative of the development.

Many technical improvements were effected by the industry during the period, chief among these being the installation of modern machinery for spinning weaving, and the development of new bleaching dyeing, printing and finishing process. In the post-war period it is meeting new difficulties which are not due to any lack of inherent strength.

Sugar.—Sugar is another example of an industry brought to its present level by protection. The sugar output in 1932-33 was only about 300,000; but in 15 years it has risen to over a million tons. It now supports almost the entire home market. There has been a steady improvement in the quality of cane for which the most suitable seed has been developed after a long experiment at Coimbatore. Thanks to the recent technological advances, facilitated by the Central Research Station at Kanpur, a higher percentage recovery of sugar from cane has also become possible. The dovetailing of the several connected industries; the fullest utilisation of all by products; and the coordination of the industry with intensive scientific farming has made the industry in some cases much more economic to operate and profitable for all concerned.

Paper.—Paper industry is yet another which grew because of the protection granted to it in 1925. The duty imposed on imported wood pulp some years later was instrumental in the development of the production of indigenous bamboo pulp which is new the main raw material for paper making in the country. Recently pulp making has been taken in hand in C.P. and in Assam. The production of fine writing and printing paper increased rapidly in the last decade. The same was the case with Kraft or packing paper; but in the absence of proper raw materials for making mechanical pulp, all efforts made by the Forest Research Institute to produce news-print in this country have not succeeded so far; and so the whole of our annual requirements of about 50,000 tons of news-print, has to be imported from abroad.

Question 23.—In the case of modern mechanised mass producing industry, the size of the unit enterprise tends to increase as the economies of large scale production can only be enjoyed if the unit is as large as possible. There is also

a tendency for industries to be concentrated, as is the case with the Cotton Textile Mills which are located mainly in the three centres of Bombay, Ahmedabad, and Sholapur; the Sugar Industry three-fourths of which is situated in the U.P. and Bihar; the Jute industry in and around Calcutta or the Iron and Steel Industry with all its ancillaries at Jamshedpur. The advantages of specialisation of industry which are in force in such concentrations, speaking broadly, are in the interests of the country.

Combination among competing firms tends, thanks to protection, grow. It secures the advantages of the maximum possible cooperation, and consequent economies among the units in an industry, which may be passed on to the consumer in the shape of lower prices, or to Labour engaged in industry in th shape of higher wages as well as profits to the proprietor and manager. The outstanding example of all these is that of the Indian Cement Industry. The several factories in that industry were made into Associated Cement Companies. whose only competitor before the War was the Dalmia group of the industry. As these combined during the War and pooled their resources, they were between themselves responsible for something like 85 per cent of the total output of that industry.

Combination also has been found economical in the case of Indian Shipping Concerns. The principal Indian-owned shipping concerns all combined and operating successfully against their British competitors, still rooted in this country. With their very limited tonnage, however, they can get only a small share of the available coastal or overseas business. Nothing like a complete monopoly has been achieved, the combine operating only for the strengthening of the weaker units, nor has it achieved a complete monopoly in the case of the combination of Construction Companies which are able to provide adequate equipment on a large scale for a variety of enterprises.

A noteworthy case of vertical combination has occurred in a Sugar concern in Bombay, the Provinces of which also can produce power alcohol and dairy produce, including milk and all milk products and sweets, cattle dung provides manure on the spot as the canal provides water for the cattle, and cane ends provide green fodder for the cattle, who in their turn provide milk, thereby showing the possibility of dove-tailing one enterprise into another in such a manner that the finished article of one way be the raw material of another. Such a combination or joining of mutually connected industries into a composite whole cannot but be regarded as beneficial.

This also answers item 4 relating to the development of ancillary industries. The Iron and Steel industry has set a good example of developing a number of such industries in the same centre after the principal industry had grown.

Fiscal protection given in the form of import duties, whether *ad valorem* or specific, naturally encourages the domestic producer, protected against foreign competition, to secure as large a slice of the home market as is possible. A monopoly ordinarily aims, not at the greatest possible production and therefore the widest development of the industry, but at restricted production, to secure high prices of the output. This is prejudicial to the consumer as well as the workers engaged in the industry, and so to the country as a whole.

Of the other features mentioned in this Question, neither the size of a unit, nor the localisation of any industry has reached such proportions as to be objectionable.

Question 24.—Several instances may be quoted of such defects, which have, however, not always been properly attended to. For instance, some years after protection was granted to the local sugar industry, it was found the cane producer was at a disadvantage *vis-a-vis* the factory owner. It was only after some experience had been gained that measures were adopted to ensure a fair share of the improving fortunes of the industry to the producer of its basic raw material.

The biggest defect, however, is in regard to the consumer's burden. It has been suggested that the burden of fiscal protection is borne by the consumer, who has to pay a comparatively high price for the produce of such protected industry, while it is building up its position to a competitive level. This is a sacrifice the country may well bear if there is assurance that, in course of time, when the industry becomes self-sufficient and able to stand competition from any source, prices of the home product would be appreciably lowered. Either the protective duty would be removed when the industry no longer needed such aid, or prices of its products be controlled and regulated. This has not always been effected in this country while under a Foreign Government. The principal industries which were first to receive protection were after 10 to 15 years removed from the list of protected industries. But the prices of their products have not materially declined. One explanation of the continued rise in the price level is Government's own policy of inflation begun during the war, and continued almost uninterruptedly thereafter though in varying degrees of intensity. While Government is unable to check its sins of commission and omissions of this kind, it would not be in a position effectively to cure such defects in the working of local industry.

Question 25.—The statistics given earlier in regard to the progress of protected industries the growth of the number of establishments in each such industry of the capital invested, and labour employed, of the raw material consumed, and total production, would suffice for answer to this question. The case has also been mentioned of the Iron and Steel Industry as well as of the cement industry, which, by properly organising the industry, utilising and developing all ancillary industries and otherwise rationalising, production has helped to effect economier in the internal organisation of those industries, and their general working, which would not have been possible if they had not been sure of their own ground, and were faced with remorseless and relentless foreign competition.

Question 26.—Answer to this question also has been provided in the form of statistical material and explanatory comments on the same, relating to the development of technical and training institutions in the country, or facilities for skilled labour increasing in recent years.

So long, however, as the available industrial employment is disproportionately small and limited; and so long as agriculture continues to be the principal source of livelihood for the largest proportion of the population, estabilisation of labour force in industry, as mentioned in (d), is difficult to form. The remedy is to strive for a more balanced economy, wherein the undue pressure on the soil would be diminished by alterative employment being created in modern industry, and ancillary services or Transport by land or sea, commerce and general administration, including management of industry. The Commission must, therefore, interpret their Terms of Preference widely enough to include these objectives, and frame their recommendations to achieve this end.

Question 27.—In more than one case has an industry developed its own technical research or assisted it. The old time method of working and learning was pursued, all the more easily as the growing vogue of automatic machinery dispensed with the need of personal attention, skill or exertion. In the more modern industries, they are substituting practical training in their own establishments or combining to set up a central Research Institute to serve the needs of the entire industry for technically trained personnel and higher scientific research. The Sugar Technological Institute at Kanpur, or the Cotton Research Laboratory at Bombay; or the Bombay University Department of Chemical Technology and Textile Chemistry, may be cited as instances where an industry itself encourages or fosters research, either by special scholarships for research on specific problems, or large-scale endowments. The Tata Iron and Steel Co., has its own fairly large-scale research laboratory, specialised for that particular industry, and used for the benefit of its own employees primarily. Other industries, however, depend upon the general progress of scientific education,

technical training, and high grade research in the Universities and the system of public education in general for advancement of technical skill and research connected with their institutions.

Question 28.—No.

Question 29.—The answer to an earlier question above where statistical tables have been appended and general observations made would suffice in this case.

Question 30.—Three or four instances can be mentioned in reply to this question wherein Government's policy, apart from the fiscal protection, have directly affected the development of local industry.

(i) The change of ratio in 1926 between the rupee and the sterling from Rs. 15=£ 1 to £ 1=Rs. 13 1/3, has adversely and obviously affected the scope for the export of Indian goods. The continued link between the Rupee and the pound sterling, even after the latter had been dislinked from gold, and suffered a steady though concealed depreciation, during the World Depression, the War, and after, still affects the development of industry in India. India was throughout the British domination never allowed to manage her own currency system, in her own way, to suit her own interests. Even when all other countries, including Britain, were manipulating their currency and exchange as effective, though temporary, remedies for stimulating local industry and export, India was held fast to the Sterling ratio, raised by 12½ per cent, even while Sterling itself was steadily depreciating.

India, however, today, though in independent, sovereign State, is not immediately in a position to reverse the fixed ratio, since, from having been a creditor nation for decades past, she faces the likelihood of becoming a debtor country, with a heavy and growing balance of trade against he even though the so-called "Home Charges" have disappeared. Those, however, who have the shaping of the fiscal and financial conditions of the country should not overlook the devices of Exchange ratio affecting very materially the success of the country's industry.

A second example of the same kind is in relation to the Transport system, within the country, and particularly the railways, whose rates could be effectively manipulated to help local industry. These are utilised more as a source of easy taxation or monopoly profit, than as a price for service rendered by a public utility. Every time the Government in India were in need of more revenue, railway rates and fares were increased, or surcharged, irrespective of their reaction on the local industry, trade or general economy. This is highly objectionable, the more so as it has a prejudicial effect on the country's industry which is not always perceived.

The general financial policy including taxation and expenditure, is another example of the same kind. The Roosevelt administration in the United States, tried on a large scale, and with considerable success, increased public expenditure from borrowing to stimulate American industry during the Depression and increase employment. The Government in India have yet to recognise the use of public expenditure, wisely laid out, to increase employment and productivity. The recent increases in tax rates have scared industrialists to such an extent, the unexpected depression has resulted without any obvious justification for it. Even in the matter of Customs Duties, the presence of revenue duties makes the aim of fiscal protection complicated, if not ineffective.

One more example may also be added; that of the Grow-More-Food campaign, and its reaction on industry. Without questioning its necessity, one may, however, point out the disadvantageous consequences of uncoordinated reduction of area available for the so-called "Commercial Crops". These give the raw material of industry, for instance, cotton, or jute. And if the volume of locally available raw material is reduced, indigenous industry would have to depend on foreign import,—which may be relatively costly—or starve itself. Such measures have a double aspect which is not always realised by those who are carried away by the moment's enthusiasm.

SECTION D

Factors in the formulation of a new Fiscal Policy

Question 31.—(a) During the War years 1939-45, it was impossible to procure the capital or consumer goods which India did not produce herself, and for which her usual source of supply used to be Britain, the Dominions, the U.S.A., Germany and Japan. Germany and Japan were, of course, out of the running altogether, during the War. In Britain the local industry had to be diverted almost entirely to war purposes, so that hardly any plant was available for civilian or consumer's goods. And the same might be said about the British Dominions like Canada, or allied countries, like France.

In the U.S.A. up to 1941, civilian production continued; but the war demand of Europe for those goods as well as munitions was so intense, the possibility of U.S.A. joining in the War was so imminent and so rapidly growing every day, that even before the U.S.A. entered the War officially, the Lease Lend System had been evolved mainly to supply the war needs of British and her Allies. When America joined the War on her own account, the entire productive organisation was turned towards supplying her own and the Allies' war needs; so that the civilian demand in countries like India, either for consumer or capital goods, had to be almost utterly denied.

This was the chief explanation of the series of regulations which came to control both Imports into and exports from India during these years. The control grew in scope and volume as the war intensified till the larger portion of the entire foreign trade was covered by it.

The growing scarcity of shipping also was responsible—certainly after the unrestricted submarine warfare which Germany began, and which Japan followed up when she too entered the War. Prices also rose very steeply but as Indian Iudustry and production of all kinds began to get ever higher prices, that would not by itself hinder exports from India or imports into this country by itself. But coming along with other factors, it affected the industrial position in India, favourably even if temporarily.

The chief consumer of Indian exports like cotton, both raw and manufactured—were, before the War Japan and the countries that had fallen under her domination. As they were cut off by the War, and as trade with free China was materially impeded the principal exports of India, naturally suffered a decline. Other articles like Jute, came under the influence of Lease Lend. The factors which affected imports also showed themselves in connection with the exports. That part of the trade had also therefore to be controlled.

(b) After the end of the War new difficulties have cropped up in this country as well as outside to influence international trade. The process of rehabilitation and reconstruction, which the principal belligerent countries including Britain and the United States, had to take up, is not yet completed, except perhaps in the United States. But the aftermath of war and the prevailing tension in international relations inclines American energy to prepare for the next war; or to strengthen the Allies (*e.g.*, by the Marshall Aid Plan for European Recovery) which she may expect to have if and when that war comes rather than to emphasise normal production and trade.

The prevailing scarcity of Dollar Exchange operates in the same direction making trade with the so-called 'Hard' currency areas more than even difficult particularly in regard to imports.

British economy has been so affected by the War, all Britain's foreign investments having largely disappeared or used up, and her shipping substantially destroyed, it takes her all her energy and determination to revive her local industry and recondition trade in the altered situation. She has now very little of those "invisible exports" which came to her as interest on loans to foreign countries, profits of capital investment abroad, shipping freight, banking commissions and insurance premia, not to mention the payment for the services of her nationals in foreign countries which formed such a substantial portion of the "Home Charges" from India before 1947. Notwithstanding all efforts at increasing production, Britain is now a heavily deficit country

so far as the balance of international account is concerned. She has a very large adverse balance every year against her. For a time this was got over by the Anglo-American Loan of nearly £1000 million. But that loan was exhausted much sooner than was anticipated, and the problem of making her exports pay for her imports is more acute than ever.

Those countries consequently which are linked with and dependent upon sterling have reflected difficulties, even if their own economy may be intrinsically, sound enough to return rapidly to normalcy after the War. In this country as remarked already the situation has radically changed since the Partition owing to unexpected problems, like food shortage, shortage of raw materials, and the growing demand for consumer and capital goods. Imports on all these accounts are intensely needed. The exportable surplus on the other hand has suffered heavily on account of the partition, which has taken away considerable areas producing food and raw materials. The staple of Indian exports, jute and cotton, supply of food stuffs like wheat or other raw materials, has thus suffered. Tea remains the only principal export yet unaffected. The manufacturing goods which are increasing in volume are however still insufficient in many cases to meet local demand. Their figuring therefore on the export side is limited.

India thus suffers from all the hardships of a deficit country and sees no ray of hope of reconstructing and rehabilitating her national economy, within a reasonable period, to be self-sufficient, if not a creditor country, or surplus exporter on the balance.

The absence of any definite programme of reconstruction, rehabilitation or re-ordering, the uncertainty of a definite policy in essential matters, like public finance, including taxation, currency and exchange, makes the nerve centres of industry extremely shaken, and unable to get on with the process of reconstruction, such as it may be in their power to effect.

India had no doubt considerable balances accumulated during the war years in sterling, and kept in London, at the time the War came to an end. But these balances were not and could not be made available immediately for conversion into hard currencies. Nor was Britain herself able to supply all the needs of India in the matter of her industrialisation, post-war planning or reconstruction. The only available remedy for India was thus inaccessible.

The food shortage within the country has intensified the exchange crisis. Accordingly ships, plant, machinery and equipment—which are absolutely indispensable for rehabilitating the national economy of this country, and placing it on a normal and progressive footing—are impossible.

Question 32.—As legislative measures have been mentioned in reply to the previous question it would suffice, generally speaking, to answer the second part.

The import and export trade policies and their administration were not conducive to the growth of industries. After the termination of the War, for one reason or another, import of a large number of consumer goods, the production of which was either already sufficient or could be easily stopped up, was permitted freely to the determent of existing industries. But import of essential items like metals, engineering stores, machinery and machine tools which were not produced in adequate quantities was not allowed without a licence. Again the existence of restrictions on the export of manufactured goods and the prohibition of even sending samples in some cases to foreign countries prevented the restoration of pre-war trade contacts and restricted the scope for development of indigenous industries.

Question 33.—The basic premises of the Fiscal Commission, as stated elsewhere, sought to give India a fiscal policy, which would afford "discriminating protection" to industries that had reasonable hope of success, within a limited period. These expectations were founded on the availability of raw material, sufficient in quantity and suitable in quality; cheap and adequate labour supply, skilled as well as unskilled; and a large and growing market at home. Fiscal protection was also to be conditioned by the fact that, without it, the industry,

otherwise suitable would have no chance to grow. This protection was, further given on condition that no undue sacrifice was involved upon the consumer, and that within a stated period the industry thus protected was able to stand on its own legs and face world competition.

For reasons mentioned in answer to previous questions, these premises cannot hold good to-day. Nor can the limited objective and stringent conditions assumed and prescribed by the earlier Fiscal Commission be wholly maintained. As this part of the question has been dealt with already, no further remarks are necessary.

Question 34.—So far as fiscal measures are concerned, the commonest form is that of customs duties on imports of foreign products competing with those of the protected industry at home sufficiently high to set off the initial disadvantages or handicaps of the relatively newly planted competing indigenous industries. These have limits and may be counteracted. Other forms include subsidies or bounties in cash on certain conditions to be fulfilled by new industries or existing ones. The bounty fed or subsidised industry or service must be sufficiently important, vital to the very existence of the country to justify the direct burden on the Exchequer that such bounties or subsidies involve. There is also the danger that in times of financial stringency this form of direct cash assistance may not be continued. In a democracy or Party Government this danger is not merely nominal, but quite real and menacing.

Special trade agreements with likely consumers or sources of supply may be entered into so as to secure definite markets for the advantage of the local industry. These agreements are now-a-days quite common and regulate the greater part of the international trade.

Of these measures by themselves, the first has its own importance. However excessive import or export duties may be given an invidious appearance of narrow nationalism or exclusive economy to emphasise the need of building up local industry. Subsidies and bounties are a more direct form of assistance which foreigners cannot object to. But they would appear in the light of a burden upon the tax payer, which in the present financial position of the country, may not be desirable. They are usually given in sufficient amounts, and often grudgingly; and so they are not an easy and popular form of granting real help to the country's industry. The perception, moreover, by the people of the advantages of such methods which involve direct disbursements from the public purse is so slight, that this form of industrial assistance by Government would run the risk of being discontinued at inconvenient moments before the industry can be said to have arrived at maturity. For these reasons, however, effective such methods may be, they have relatively been less important in building up industry than Fiscal methods of indirect aid by import and export duties sufficient to counteract the disadvantages with which a new industry starts or an existing industry expands.

Of non-fiscal measures, such as manipulation of Railway Rates and Shipping Freights for the carriage of locally manufactured goods or raw materials, or imported machinery, its parts and accessories, special concession by way of exemption from imports duties or other tax exemptions, licensing of industrial Establishments, etc., have all played an important part in building up modern industry in many a European country and in America and they still have their place in the fiscal system of an industrialising country.

As observed in answer to a previous question, Railway Rates in India have been fixed by Government, which owns the railways, more with a view to make up their Budget deficit whether in the Railways themselves or in the general finances, than to enable the railways effectively to serve the country's economy as a Public Utility service. Special concessional rates in favour of local industry were unknown. On the contrary "block" rates to carry away raw material advantageously, or bring in foreign finished goods to compete favourably with the products of Indian industry were the order of the day until recently.

Shipping freight for Indian trade could not, even if the country's Government wanted to, be manipulated in favour of Indian Industry because of the presence of foreign ship owner in Indian waters who would not be amenable

to India's needs. The telescoping of shipping freight with railway rates was equally impracticable for India's benefit. This form of assistance to local industry the Government of India have not exploited and do not still do so to any appreciable extent or in any scientific manner.

Yet other forms of effective aid in appropriate cases include cheap loans, guarantee of dividends, guaranteed purchase of proportion of the output, technical training for staff and provision of export advice from abroad, statistical information regarding markets, special supervision in the organisation of industrial concerns such as Joint-stock Companies or co-operative bodies, Trade Marks Act, Merchant Shipping Act and the like, have been known in other countries to have influenced materially in building up local industry and Shipping.

Each of these methods, devices or expedients has been or is being tried by even advanced industrialised countries, like Britain. The Cunard Shipping Company for example, has been advanced at very low rate of interest the capital cost of building the two largest vessels of the world—the *Queen Mary* and the *Queen Elizabeth.* Other companies have been aided by direct subsidies, particularly those owning tramp steamers. Recent trade agreements have included clauses about quotas which would guarantee a certain market for the products of protected industries. Even Soviet Russia has had to obtain foreign experts on a large scale from countries with a way of life radically opposed to hers. Trade Marks and Merchant Shipping Acts have helped, and help even now in giving special concession or advantage to local industry, and discriminating between several countries of origin of imported goods to secure some advantage for our goods. While the commodity used statutory system of licensing every establishment might be utilised as much to guard against abuses, as to assist our own enterprise. All these are practised in a very, very limited and half hearted manner by the Government of India though in other countries they have been tried with handsome results.

There is one form of encouragement to local industry which cannot be brought under official Fiscal Policy, but which is nevertheless effective in its results in the wholesale deliberate discrimination in favour of one's own products. We have an excellent precedent of Britain within the last decade in the so-called "Buy British" campaign. In this country, the Swadeshi campaign which was exactly on a par, met with a sturdy opposition from the then Government of India for reasons easily imaginable. The movement nevertheless developed a sentiment which is much more valuable to the local industry than it could have been in the past. For instance, the continued existence of one large Shipping concern in this country, in spite of ruthless and powerful competition from foreign vested interests almost monopolising our carrying trade must be ascribed in no small measure to that sentiment. The reasons which prompted the old Government of India to resist these concrete manifestations of the Nationalist sentiment no longer operate. The new popular and responsible Government will find that this sentiment, if carefully cultivated and deliberately stimulated by means of all the modern organs of cultivating public opinion or propaganda,—like the Radio, the Cinema, the School, the Church and the Public Platform—will prove invaluable not only in an early attainment of the principal objective, but also in resaving or avoiding all embarrassment regarding complications with other countries arising out of Trade Treaties or other obligations. This direct form of public assistance can be supported by indirect methods and prove much more effective both,—for the short term and in the long range and the country's industry could be intensively and rapidly developed as planned.

For reasons explained earlier, the previous Government of India did not, could not or would not adopt any of these. Our new national and popular Government, which now has complete control of our destinies has no such inhibitions. Unfortunately, for the moment that even if it wanted to adopt these expedients or any of them aggressively it is not in a position to do so in any degree that would bring definite substantial results. Efforts are indeed, being made, as mentioned above to build up training institutions and scientific research which could be harnessed in the service of industry. But these will take

time and even when they come it may be questioned if all the advantages expected therefrom would be realised. India would have to place her house much more in order, before she could be free energetically and effectively to build up her national economy to ensure the prosperity of the country and a civilised standard of living for her people.

Question 35.—An appropriate and clear-cut tariff policy, consisting not only in import or export duties, but a properly co-related systematic well thought out policy in all its several forms and devices each suited to the different needs of the several industries, and also fitting in the aggregate national economy, would help rapidly to develop an intensive all-round industralization of the country so as to make a harmonious and sympathetic whole. It should avoid excessive emphasis merely on the building up of larger industries. For such excessive or one-sided emphasis might create new problems by lopsided development. A balanced ecomony, wherein due place would be given both to agriculture and industry, to all the ancillary services of banking, transport, insurance and commerce to all utilities and amenities which make a decent standard of living must be the idle sought. All measures of policy should be adapted to attain that ideal.

Question 36.—This question demands a differentiative as between short term and long range policy, but requires the answer to be confined to only short term measures. We would suggest that for immediate effect our fiscal policy should be framed and the measures taken in pursuance of it must be adapted to the immediate needs. At the present time the main difficulty of large scale industry is in regard to the procurement of new capital goods, including plant, equipment and machinery, their parts and accessories. This difficulty is for the moment intensified by the shortage of foreign exchange particularly in 'hard currency'. Measures must therefore be taken whether as part of the country's fiscal policy or otherwise, which would obviate or remedy this immediate difficulty, and provide the equipment necessary for existing and new industries to expand and develop. And pending this establishment of large scale mechanised industry, its smaller cottage-scale counterpart should be actively reorganised, reconditioned and stimulated to make up as much of the gap in consumer goods as possible. Moreover short-period activities should be confined to large scale consumer goods industry and directed by the centre cottage industries may be pursued by the Provinces.

The policy of protection by customs tariffs manipulation, in the shape of export and import duties may also be redesigned and adopted to the more urgent requirements. It must be harmonious with the rest of the economic policy, including all branches of Public Finance. It must at the same time be appropriate to provide scope for indigenous industry to expand and develop for the supply, primarily, of the whole of the home market, for the employment of all available local labour, skilled or unskilled, and for capital investment equal to the industrial potential. It must, finally be sufficient for building up the general prosperity of the country and ensuring a better standard of living for its people.

The objective in view, therefore, even in short term development of particular industries which may ask for protection or which the Commission feel would develop effectively with the aid of protection, should be a balanced economy and attainmnt of national self-sufficiency in as wide a measure as possible in essential requirements which should not be lost sight of.

Question 37.—Certainly. While the country has to build up all the 'key' industries as well as the vital essential services, not only to ensure material prosperity and a decent standard of living for the mass of the people, but also in the still larger interests of national safety, security and independence. Such declaration of national policy would be as legitimate as it is necessary. We have a heavy leeway to make up in our industrial development and economic prosperity; and it would be futile to expect to realise this objective without such a policy and definite, adequate measures taken in support of it. The ideal of National Self-Sufficiency in vital and essential requirements held out in these answers and of securing a properly balanced economy also repeatedly emphasised, demand that the only suitable policy for the country is one of adequate and effective aid and protection in appropriate forms, given to enable new industry to build itself up to its optimum capacity, and existing ones to

recondition, rationalise and expand themselves so as to secure all possible economies, and meet the maximum possible of the home market demand at least.

It is for these reasons that the policy of adequate, effective and appropriate, and sufficiently durable protection should be emphasised by this Commission no less than by the Minority Commission of 1921-22.

Question 38.—Having accepted the principles of adequate, effective and sufficiently durable protection to all suitable industries in the country, this Memorandum would not limit or condition that by considerations which seem to have weighed over much with the Fiscal Commission of nearly a generation ago. The apprehension of a protectionist policy proving a burden to the consumer, or the community as a whole has, as already pointed out, been misconceived for obvious reasons under the then political and economic condition of India working in absolute subordination to the Economic Imperialism of Britain. They are not likely to occur in reality. In so far, however, as it does occur notwithstanding all precautions it will be more than counter-balanced by the establishment of new industries which will compensate for or avoid the really burdensome character of Fiscal duties and of other appropriate forms of effective protection to indigenous industry.

Nor need it be assumed that a protectionist policy towards industries would necessarily be burdensome ; it may take the form not of import or export duties but may be equally well found in indirect measures imperceptible in their effects, *e.g.*, manipulation of freights on railways or waterways ; exemption from taxation ; special currency and credit facilities ; provision of technical personnel and expert advice ; improving the general educational system, and affording amenities for workers so as to increase their productive efficiency and a number of other cognate expedients or devices which would be beneficial in the long run to the community as a whole ; and at the same time helpful to the industrial growth of the country.

Other specific conditions for according protection, like availability of raw materials, of labour, and of market ; or the inherent possibility of the industry thus developed to withstand competition within a given period and stand on its own legs, suggested bv the earlier Fiscal Commission, are necessities of the real and lasting growth of any industry. To stress them. however. by making them each a condition precedent for the grant of protection is apt, in the ordinary mind to overlook the still more overriding considerations of national safety, security and self-sufficiency in essential needs,

We would, therefore, not insist upon these conditions as the *sine qua non* of granting protection to any industry which on investigation is found to be in need of it. The development of industries in our view should be a matter of general policy and planned programme by the National Government on a nation-wide scale of development, in which the Fiscal policy, financial measures, education and other advantages would be integral parts and inseparable concomitants. All would, moreover, be integrated and corelated, one with the other, so as to make a comprehensive and consistent scheme of development. In such a carefully divised, corelated and comprehensive programme, no detail, like these conditions, would be over-emphasised at the cost of losing perspective- proportion or balance of the whole picture.

The only condition which need be mentioned at all is in regard to an industry being suitable to the country with reasonable possibilities of development by the fostering care and encouragement of the State. It must be essential to the very existence of the country as an independent nation, or vital for its aggregate national economy to be maintained. It must function smoothly to achieve a pre-determined objective or goal.

Question 39.—This is a matter for some kind of an overall National Planning Authority to advise upon. Such a body itself would have to be guided by the prevailing conditions and circumstances under which such policies have to be

framed and measures to be carried out. For a country in the position that India is today, and under the circumstances now obtaining in the world, priority may have to be given :—

(a) Industries indispensable for the maintenance of the country's defence-safety and security. This will include not only industries directly connected with the production of armament and ammunitions of all kinds; but also all vehicles, instruments or apparatus concerned with the organisation, equipment, movement, feeding, clothing and housing of the defence forces by land, air or sea as well as their auxiliaries, their health and education.

(b) Industries relating to the production of primary machinery and machine tools, essential for the building up of other important industries. These may be called 'Key' or mother industries whose list may be large, and whose establishment in this country is a matter of the country's economic independence and industrial self-sufficiency.

The mere question of competitive costs in production at home or of imported goods from abroad, which seemed to have influenced unduly the previous Fiscal Commission cannot be suffered to influence the decision on this matter by the Government of the country. A foreign Government, operating in subsidiary co-operation with their Home Government, may take such a view. But a National Government resting on the support of the people cannot afford to ignore the very fundamental requirements of the country's industry at large as well as other sectors of the national economy.

The only condition that may be urged or insisted upon would be that these various aspects, sectors and items which make up the aggregate national economy should be integrated, mutually corelated and developed simultaneously. The degree of emphasis may from time to time vary. It may increase with the prevailing circumstances, both within the country and outside. But such variation would be temporary, and cannot be held to affect the main order of development indicated above.

(c) In giving priority to the first two, we are not overlooking the claim of consumer goods. In fact, in so far as the actual standard of living for the large mass of the country is and has been below par, increasing production of consumer goods including foodstuffs, clothing, housing, etc., is a matter of vital necessity, and cannot be deferred to any distant future.

One may even assert that the priority given to the two preceding classes is really in order to secure the better development and fuller growth of this class of industries, in so far as they bear directly on the daily life and work of the people. This group would include not merely productive industry, whether on the large or the small scale; it must comprise all forms of production and distribution which would enable proper consumption according to pre-determined standards being had by the mass of the people. It would, therefore, include inevitably industry, agriculture, as well as all public utilities and services, such as Health, Education and Sanitation, Transport and other public Utilities These last may not be productive of material goods directly by themselves; but they materially assist those other industries that directly produce material goods. In this large group there may be varying priority as between different items or groups of items according to special circumstances or passing conditions. But taken collectively and for ordinary peacetime life, they make up the aggregate standard of living.

An improved standard of living which is universally admitted necessary for the mass of the people, is the result as much of increased production as of better, more rational, more equitable distribution of the national Dividend. For this purpose the all over policy to regulate and develop the country's economy as a whole must pay due regard to this less tangible but no less important requirement of a full and rich life being ensured to the community as a whole.

Question 40.—For reasons just given in the answer to the two preceding questions, it would be evident that the policy advocated by this Memorandum is not in reference to an existing industry in its early struggling stage. It

applies equally to existing industries struggling against foreign competition but also to potential development of the country; and that, also, only in matters industrial. A Fiscal Policy even if it is part of the general policy in this regard, will have to be framed and applied so as to maintain its due importance in the aggregate scheme of the national economy. For that purpose Protection, aid or encouragement by the State must not be confined to only such industries as, being in existence, have to struggle for very existence.

Question 41.—A greater part of this question has already been answered above. The role and importance of import and export duties on corresponding goods made in the country itself has already been examined and defined. The limitations of this system have also been indicated.

(i) It is perhaps the most effective form of protection to the local industry and is most commonly practised. Its possible disadvantages, *e.g.*, unnecessary or disproportionate burden on the consumer, or the growth of monopolies in protected industries by means of trusts, syndicates, cartels and the like, should not be ignored.

(ii) Mention has also been made of the effect of subsidy or bounty in building up or developing an industry. These are cash payments made in support of a specific industry, and calculated on a specified basis of output, or work done. For instance, shipping bounties were paid in Japan for every ton built in that country, while the ton subsidy by Britain to her Tramp Shipping in the thirties was intended to keep alive a class of business which was slowly dying out, but which nevertheless helped to earn what may be called invisible exports for Britain in the years when they were badly needed. The growth of the sugar industry in Europe by means of bounties is a classic example of this form of assistance; while payments on account of carriage of mails, stores, personnel by ships is a well-known universally practised form of subsidy. We have already pointed out the objectives inherent in this method of assisting given industries. They are direct visible burdens on the public exchequer, and so liable to be terminated at any time by the Party influence at different moments. Industries helped by such devices would not be in a position to make any long range plans depending upon such help, unless they are of such vital national importance that no country would dare to scrap the system.

(iii) No specific remarks are offered on this point, except, that unless such pools are universally agreed to and observed, they may not be very effective. Even when they are part of an international agreement, and are made so as to harmonise the interests of each party to the agreement, they may be believed to be unfair to some. That would lead to their own undoing.

(iv) This method may be appropriate if the country's output is limited, and equal to the aggregate local demand. Foreign competition in given cases, may be so serious that no portion of the local production might be available to the domestic market, unless some such device is adopted by which competing foreign imports are limited thereby reserving a reasonable share of the domestic marker for the local producer. This would naturally raise the price and so provide a protection without any direct burden upon the community as a whole or upon its exchequer.

(b) In answer to an earlier question the advantages as well as the disadvantages of each of the several forms of protection have already been shown. The commonest, the easiest and most frequently practised is the system of protection afforded by customs duties on competing imports, or exports of home production so as to guarantee a certain amount of raw material for the domestic producer. This, however, suffered from the handicap of imposing a burden of community as a whole indirectly.

For industries of vital national importance, on which the safety, security or independence of the country may depend, such indirect methods would not suffice. Where cost, direct or indirect, is not an overwhelming consideration, industries, services and utilities will have to be developed by every form of State aid not protection. This applies to the vital services and basic industries of transport, including shipping as well as ship-building, the production of armaments and munitions of all kinds, the industries connected therewith, development of the mineral wealth of the country and the like.

Exclusive preference cannot be shown or exclusive reliance placed on a single method, device or expedient of State aid to industry. The time factor is also important in evaluating the utility of such device. That is to say, if and where long-term planning is necessary for the establishment of an industry, methods will have to be adopted which would permit of such plans being made in advance. Where, however, the need is immediate, and development of particular industries is required within a short time or immediately, as for example during the last war, the efficacy of slow-working long-range forces like Customs Duties or price pools will not serve.

(c) Answer to this part of the Question is implicit in the two previous sections. The exactly appropriate method is a matter of balancing, various and not always mutually harmonious, considerations. For one and the same industry, a method which is appropriate today may not be so five years hence. A combination of methods and devices may also be necessary for particular circumstances, or in cases of immediate urgency. The only conditions one may lay down safely, which may be generally helpful is that the ultimate objective, as well as the immediate aim, should be clearly defined ; and means should be devised and adopted to realise that objective as effectively and as early as possible.

Question 42.—The safeguarding of an industry becomes necessary either when there is unfair competition by doubtful methods like Deferred Rebates by foreign monopolist concerns. or because some immediate urgency, requiring the maintenance of such an industry within the country. The safeguarding measures are not essentially protective, but meant to preserve and maintain important or essential industries already in existence and fairly developed ; but which are threatened with extinction by some new international development. technical innovation, or economic circumstances. They are, therefore, adopted, primarily to guard against the risk of dumping by countries with deliberately depreciated currencies, or their subsidised goods, or with the deliberate design of preventing the establishment and growth of given industries in the importing country, or for any political reason such measures would presumably be of short duration while the particular contingency lasts. They must be distinguished from substantial measures of protection and deliberate aid to a given industry to come into being and grow which must necessarily be of comparatively long-range character.

For anti-dumping and safeguarding measures to be carried out satisfactorily, administrative machinery would have to be devised with power to react upon each changing condition or factor which necessitated the measure in the first instance, and which required application in varying degrees from time to time.

When Japanese dumping of cotton Textile goods in India became very serious, and when it was realised that such dumping was facilitated by deliberate depreciation of the Yen, the Indian Government had to replace by specific duties their then existing *ad valorem* duties, in order to guard against such practices. The change was thought to be necessary only for the time being. It was adopted mainly because no other method of adequately and effectively safeguarding the local industry was available under the then existing Trade Treaty between Japan and the Government of India.

The deliberate and heavy reduction in freight, by the Japanese Ship Owners interloping in the Indian Coastal trade, including trade with Ceylon and Burma, was another instance of subsidised shipping helping to dump essentially of the same kind as the above. The Government of India, however, did not bestir themselves to act for safeguarding the interests of the then existing Indian Shipping until British interests clamoured for such protection. An agreement was then made between the Indian and British Ship-Owners doing business in Indian waters to share the traffic in certain proportions, Indian Shipping getting only a fraction of the total trade, by which some steps could be taken against Japanese action in the matter of standard or reasonable freight. Recent substantial reductions in freight by the Dutch Lines of ships doing business with India also involve heavy loss. But besides protesting

against the action, the Indian Government seemed powerless to do anything by way of protection or safeguards until once more an agreement was reached between all concerned to maintain a reasonable level of freight rates. When such a rate-war is launched to serve the private ends of a foreign company the combines adversely affected should have the right to meet the crisis by suitable action against the foreigner and the international commitments meant for normal usage should be made inoperative in such contingencies.

Question 43.—Export duties are, economically, most suitable to be levied on such of a country's production as is practically a monopoly of the country. For, in that case, the burden of the export duty would presumably be borne by the foreign consumer of such monopolised specialities. Such duties may have protective significance, inasmuch as they help to secure a plentiful supply of cheap raw material in the country. This presupposes, of course, that the Export Duty is charged on a raw material of industry; and that the country levying such a duty has the necessary industry to work up the raw material into the finished product. It may be, however, that the duty in practice proves to be an inequitable handicap on the primary producer, who is deprived by it of a wider, competitive market for his produce.

These duties are, however, generally for revenue purpose. Their reasonable limit is the point at which production of substitutes may be estimated, in which case the Duty will fail to produce much revenue, as the demand will fall off. Even if the taxed article is a monopoly, but there is a limited market for it,—almost like a consumer's monopoly—the export duty would not realise its principal objective.

Finally, if the monopolised commodity when exported is in the nature of a raw material, like Indian Jute, which is possible to be manufactured into finished goods within the country, it would be worth considering if such a duty is desirable. For the corresponding industry, if developed, can earn greater profit in selling the manufactured goods in place of the raw material, and at the same time provide increased scope for capital investment and labour employment. Under certain circumstances, it may be desirable to levy export duty on the essential raw material to prohibitive level, so as to conserve the raw material raised in the country entirely for the manufacturing industry based upon that raw material, and established in the country.

On the other hand, Export Duties may be utterly desirable for countries in the situation of Britain to-day, who need to stimulate their exports at any cost. In such cases, there are even export Bounties, or a differential price for goods for export and on the commodity consumed within the country. Even if purchased, in the first instances within the country the difference in price charged in the first instance on the assumption that those goods were for local consumption, may be refunded on satisfactory evidence being produced that the goods were in fact for export and were actually exported.

Export Duties may also be levied for the purpose of ensuring supply of the necessary raw material for the domestic industry, or for domestic consumption of goods otherwise likely to be in short supply. Those goods may be competing in the world market, if the local industry is in need of such material, even if the local production may be able to find a more profitable market outside, it would be desirable to secure an adequate supply at home at reasonable prices, so that the local industry should not suffer a needless handicap in regard to the material which the country itself produces, but which, under conditions of competitive trade, is not available in a required measure.

The same argument applies also to Consumer Goods produced within the country and liable to be exported, unless checked by means of Export Duties and so reserve a proportion of the domestic production for domestic consumption. Such export duties are not, primarily, either revenue yielding or protective. They are imposed only with a desire to secure a reasonable supply of the raw material on which local industry is founded, and not because by that means a more effective protection can be assured to the local industry. In the case of Export Duty on finished goods, ready for consumption, there is not even the possibility of indirect protection.

The preceding would also suffice to answer (b). The control of exports by means of prohibitive or restrictive duties may have their purpose as indicated above. Control can also be exercised, apart from these duties, by means of a system of licences which would enable a proper quota to be maintained with different countries, or enable one country to discriminate as between the several purchasers of its produce. In these days when trade treaties are common, with specific quotas of supply of particular goods to particular countries, it may be desirable to have some system of licensing and control on trade so that the obligations incurred under the treaties may be duly carried out.

Mention has been made above of export bounties as radically opposed to export duties. Countries may occasionally get into a position in which they must stimulate exports at any cost. In such a case as any hindrance to export would be undesirable, unless as it happens in Britain to-day, for example, it may be that export is only to be directed to particular countries whose currency is badly in demand. Under these circumstances however it would not be so much an indiscriminate stimulation of exports all round, but a controlled direction of exports to particular countries or of particular commodities. Such action is usually for purposes more of regulating the balance of trade and exchange, than for reasons of promoting any domestic industry. The safeguard of the domestic consumer is achieved by such duties as mentioned already when they are imposed for purposes of securing a minimum supply of raw material needed for the country's own industry, whose cost of production would otherwise be unnecessarily increased.

There is, however, a feeling in certain quarters that export duties are unnecessary. In fact, the American constitution provides a constitutional bar against levying duties on the produce of any member state of the Union. It is thought to be an unnecessary interference with the freedom of trade, and also with the prosperity of the component parts of a Federation. Even though the Indian constitution is not entirely a federal constitution, such a feeling may quite possibly affect parts of India. For instance, Bengal or Bihar are monopolist producers of Jute and any export duty on such an article is apt to be felt by the producing unit to be an unnecessary reduction of their own prosperity. Export duties, therefore, must be levied, if levied at all, with very great care, and under strict reservation, so that they may be either dispensed with when unnecessary, or regulated so as to make the burdens fall exclusively on the foreign producer, and leave no handicap on the domestic producer.

To make these duties an integral part of the financial system would in any case be undesirable. For if the State comes to rely in any great measure upon the proceeds of such duties, it may be unable to remove them when there is no economic justification or political necessity.

Question 44.—If it is desirable, in the interests of the country and its general economy, that such exports should be maintained or stimulated, there may have to be Export Bounties, or refund of duties on raw materials, machinery or any of its parts of accessories, including stores that the industry concerned consumes. If the stimulation of export is a general necessity because of the peculiar balance-of-accounts position, at any given moment, the argument would be different. It all depends upon for what purpose the exports are to be stimulated, and the regulation would be in accordance with that position.

Apart from Export Bounties or Refund of the Duties, price refund may also be given as already explained above. Discriminating freight rates have also been known to stimulate exports to particular countries, and so provide a specially favourable balance or direction of trade, so to say, which for any reason,—economic or otherwise—is deemed in the interests of the country.

Question 45.—The method employed at present by the Tariff Board of determining the degree of protection needed by any industry, by comparing the cost of production of a representative firm in that industry in this country and the corresponding cost at the port of entry of the competing article from abroad, is no doubt the obvious way of providing protection to a new industry under private competitive enterprise, with discrimination, and so as to minimise the burden on the consumer. As however, stated more than once above, the

argument of the burden on the consumer is liable to be exaggerated. Industries there may be whose establishment and devolopment in the country within as short a time as possible, is of vital national importance, a part altogether from considerations of comparative cost. In fact, such industries must be developed almost irrespective of comparison between what it would cost at home for the articles required and if they are purchased abroad. Illustrations have been given above from the automobile, aircraft, ship-building, the armament and munitions industries which would need to be developed intensely, and up to the maximum of the needs of the country, regardless of considerations of cost, In many of such industries this country is particularly backward; and yet her very existence as an independent, sovereign state would be at stake if those industries are not developed within a reasonably short time within the frontier of the country itself.

For these considerations therefore the usual method of the Tariff Board for determining the extent of protection needed by any industry would not be adequate or appropriate for such special cases just mentioned.

Question 46.—If a sliding scale of duties is provided, and if adequate and up-to-date information is maintained to gauge the varying incidence of the cost of production, this device may be practicable. It will depend, however, upon the efficiency of the collection, compilation, and publication of such information. It must be official, authentic and beyond dispute; it should be sufficient to provide room for action, by way of varying the duties. Within the period originally stipulated for the maintenance of the protection granted, and which is calculated so as to enable a new industry to make good its footing it would however be undesirable to make any such variation lest, in trying to approximate the protective duties to the cost of production, we may undo the very basis of that industry.

Question 47.—Specific duties, as already observed, are fixed amounts levied per stated units. These are less effective as protective measures when prices are rising. When, however, prices are falling, they become more protective than might have been originally intended. In cases where costs are constantly varying these may be more suitable than a fixed percentage of the declared or appraised value, especially if power is reserved to vary the amount charged from time to time according to the circumstances of the moment' In India these duties have been used, particularly in the case of cotton textiles goods from Japan, which were competing unfairly by artificial depreciation of the Yen, and other concessions available to the Japanese producer and exporter of such goods.

Other messages that could have been taken to guard against such competition were, it was said, not available because of the obligations of the Indo-Japanese Trade Treaty then in force.

In contrast with these, *ad valorem* duties are a fixed percentage of the declared or appraised value which is of the same incidence irrespective of the price or cost changes. If the initial calculation is reasonable, and the percentage is fixed at an adequate level the protective effect would not be marred by any variations in prices. But such duties are unable to take any note of the improvements that may be made in the quality or the strength of the industry.

During the period for which such duties are imposed, they are maintained usually for a certain definite period of years especially if they have been framed and intended to protect what is called an "infant" industry. They may be both on imports and exports for reason stated.

The limitations of this form of protection have been noticed above and need not be repeated.

The combination of protective and revenue duties on one and the same article, or specific and *ad valorem* duty in accordance with varying quality, makes for greater complexity in administering the tariff. Such compound duties may be necessary under certain circumstances; but are not commendable in themselves. Other things being the same, they ought to be avoided.

Question 48.—Arrangements are often made with foreign countries, or Treaties concluded with any of them, by which the quantities that could be exported or imported are fixed, or special concessions that have to be given in

each case. The aim of such arrangements generally would be to secure a certain proportion of the necessary goods for home consumption, and at the same time reserve a part of the local market for the local producer in cases where there is a local competing industry.

In the days when all-round and heavy trade barriers were a common obstacle to international trade which it is considered desirable to remove quietly, these arrangements were made to get round those impediments or barriers. But they also tend to aid to the complexity and difficulties, not only in administering the system, but in conducting foreign relations generally ; and, as such, are even more obnoxious than usual.

Question 49.—In the case of industries which are either new or have not grown or expanded to their optimum possible, it would be desirable to lay down a minimum period within which the protective duties or other measures must remain in force. Such a period is necessary to enable the given industry to build itself up, to the required level, and get over the initial disadvantage or handicap which have occurred because of the non-existence or non-development or such industries. Generally speaking, it would take a new industry, under modern conditions, two or three years to take root by adequate installation of plant and machinery usually got from abroad in the first instance. It will take still longer to secure the necessary market, to organise and manage it efficiently so as to effect all possible internal economies. Yet another two or three years may be needed before adequate business experience and technical knowledge are gained. For these reasons some minimum period of, say, 10 years, for experimenting and growth of the industry concerned is indispensable. Protective measure must, therefore, be in force during that period.

On the other hand, to lay down a maximum period in advance and observe it rigidly is to invite needless self-stultification. It is impossible to say in advance what the conditions would be ten or fifteen years later, if maximum of period for the duration of the protection upto any such length is prescribed. Utterly new conditions may supervene ; new discoveries may have been made ; international relations may have been altered, even wars may have affected the situation during such a period. To calculate and allow for all these in advance is impossible.

Even supposing none of these unexpected circumstances occurred, the growth of the industry, the improving demand within the country for its products, and the character of the competition against it both inside and from outside may be such that it would be impossible to foretell all these. and their collective effect years in advance. Such a policy, would also place a needless limitation on the soveriegn authority or the Legislature of an Independent State, which is objectionable by itself for political if not economic reasons. A maximum period of duration for fiscal or financial measures of protection. prescribed in advance, is, therefore, undesirable.

Question 50.—The Question demands a detailed review of the results of such Duties on the general trade and consumption within the country, which it is impossible to append here. Speaking broadly, Revenue Duties are imposed on articles of general consumption at relatively low rates. These rates are so calculated so as to obtain the maximum possible yield from the lowest feasible rate of such taxation.

The object here is not to discourage consumption of such taxed articles, but actually to encourage it so as to secure the greatest possible yield. Usually the articles selected for such duties are of daily necessity to the mass of the people, and so yield good revenues without affecting consumption. Such duties are by themselves unwelcome in a Democracy ; and only the over-riding consideration of balancing the national budget may justify their introduction and maintenance. To be effective for that purpose, revenue duties ought to be counterbalanced by corresponding excise duties on local production wherever there is such production. But any charge on local produce would by itself to undesirable ; it would need the same justification as has been given above in regard to such duties on foreign imports.

Reducing the burden of these duties. therefore, by lowering or eliminating some of them, must not necessarily be construed to bring a loss to the Public Exchequer. On the contrary the larger turnover, would increase rather than diminish the yield from such duties. Such duties are liable to the operation of what in economics is called the "law of increasing returns" which few financiers, however, seem fully to appreciate in this country at least.

To suggest reduction in the rates is, of course, not the same thing as to suggest wholesale abolition of those duties altogether. Revenue considerations may be irresistible and unanswerable at times; and so wholesale abolition impracticable. As explained above, however, they need not be held to prevent reduction in particular items or the rates changed. Where, however, a given duty is a compound of both revenue and protectionist charge, its complete abolition or even a reduction in the rate would be difficult.

On the whole, however, if a revenue duty is imposed on articles of daily consumption by the mass of the people, *e.g.*, Sale duty in India while it lasted, or a duty on tea in Britain, it would be desirable to place such duties on the fewest articles and at the lowest rates. The Free trade movement in England began with the demand for what was called a "free breakfast table"; the intrinsic strength of the aggregate national economy,—including its industrial production, demands the retention of such duties, can they be justified and continued. The fact, however, must not be lost sight of, even under those circumstances, that complete abolition of these burdens may increase the ability of the people to bear other burdens more easily, and as such the revenue requirements of the State may not suffer so much from complete abolition of duties as may at first be imagined.

Question 51.—Conditions at the present time are, no doubt, uncertain and rapidly changing, both as regards our own economic position and trade prospects, as well as in reference to the similar factors affecting other countries. Nevertheless, the basic objectives already indicated in answer to earlier questions need not be left vague or undefined, especially as they are unlikely to conflict with the considerations given in this question. The aim of securing a policy of self-sufficiency at least in vital and essential requirements of bringing about a properly balanced national economy and a more equitable distribution of the National Dividend, need a comprehensive national plan. For only under such a comprehensive and co-ordinated Plan can we ensure the establishment and proper growth of all suitable industries within the country without being affected by the changing characteristics of our foreign trade, of our industrial policy, or the course of international trade?

Our own freedom has already altered its principal features, as pointed out in answer to an earlier Question, so radically, that any defining of the long-range policy and objectives of that policy will not materially affect the trends that are already developing in this direction. Our need for capital goods for instance on the import side will continue for several years to come, until our local industry for producing these goods as well as in other sectors is developed to the optimum degree. To meet the shortage in food supplies, plans are being made and measures adopted to remedy that shortage within a definite period. How far these measures would succeed it is difficult to say just now. But when all the steps in the different sectors already being taken or proposed have matured, the food shortage and the consequent imports must necessarily diminish. The only source of anxiety may be the growth of population outstripping continuously the improvement in the local food supplies; but that is a matter for other parts of the national policy into which it is unnecessary for this Memorandum to enter.

The imports of raw materials to provide a wider variety and better quality of manufactured goods will also continue. While the exports of the corresponding materials may diminish, new materials for export may however grow, *e.g.*, mineral products, which are not yet fully developed; or manufactured goods; for which our immediate neighbours, both on the East and the West, will continue to provide an excellent market for years to come.

The direction of the foreign trade of India has also changed, and is changing materially every year But the main trend of that change is on the lines just

indicated. The laying down therefore of a long-range fiscal policy would not be affected thereby; nor would it by itself affect the growing trend now noticeable in our foreign trade.

In regard to commitments under Havana Charter on Trade and Employment our views will be given later on in reply to questions in Part II of the Questionnaire. We have pointed out that unless the Charter is modified in few essential respects as indicated it would prove detrimental to the interests of the country in the long run.

Finally the broad lines of industrial policy laid down on April 6, 1948, in no way militate against the sort of fiscal policy, and the objectives which it is expected to attain, as indicated in this Memorandum. That Statement of Policy contemplates encouragement and stimulation of local industry, which is at present suffering from a heavy depression, by a variety of concessions. For reasons not directly connected with foreign competition, it also offers a cordial invitation to foreign capital to be invested in India in Indian Industry, so as to develop all suitable industries to their optimum proportion. If, as is likely, such industries are protected, the Foreign capital invested in such protected industry though better placed to earn much higher profit than in its country of origin would be the means of establishing much needed industries in the country. In the face of these declarations it seems unlikely that any fiscal policy which may be recommended by this Commission to secure the objectives given above would in any way incompatible.

Question 52.—Neither necessary nor desirable either in the short period or in the long run. We are of the opinion that trading is not a function of the State even as a matter of policy it is very undesirable,. Since the State can exercise a control on the imports and exports of the country through import-export regulations the proper way is for the State to exercise such a control in an efficient way over the commercial bodies and conserve all its energy to this purpose. Further it would be most unfair if the State which controls and regulates the imports and exports should also indulge in the foreign trade either directly or indirectly and take upon itself both the functions. This would amount to a monopoly without outside control leading to inefficiency in both with greater possibilities of corruption and inequitable distribution.

SECTION E.

Non-fiscal measures for the promotion of trade and Industry.

Question 53.—In view of what we have stated above this question does not arise.

Question 54.—Answer to Question No. 17 above has already dealt with this matter. The peculiar problem of securing adequate hard currency exchange for Indian Rupees, and the reaction of the rate of exchange upon local industry need not be re-emphasised. Financial help by direct subsidy or bounty is difficult while the budgetary position of the country is as it stands today. But all forms of direct assistance suggested by the earlier Commission would be practicable and must be adopted.

Question 55.—Observations have already been offered above, in answer to several Questions already, in which one or the other of the items listed in this question have been included. To bring those observations, however, all together in one place, it may be said :—

(a) that the securing of adequate supply of essential industrial raw materials which are not easily available in the country is a matter partly of concluding suitable Trade Treaties with appropriate countries, and partly of adequate knowledge and information with regard to where such materials are available and under what conditions. So far as any necessary material is available locally or from our immediate neighbours, *e.g.*, jute from East Bengal, Government can facilitate the supply not only by direct negotiation or a formal Trade Treaty affecting this article, but also by adopting such other steps as would secure the availability in sufficient quantities of this material for the local industry. Trade Treaties, with other suitable sources of supply of other raw materials, *e.g.*, Egyptian cotton, may also be negotiated to mutual advantage. A system of Export and Import Licences would also be utilised to facilitate the procurement and supply of such material.

(b) Getting necessary plant and machinery for modern industry of a more and more technical character is particularly difficult. The usual sources of such supply are unable to supply foreign markets so long as their own need of rehabilitation and reconstruction is urgent and persistent. The only country from where supplies of this character may be expected and whose machinery or plant is economically efficient, is the United States. But in that case the difficulty of the necessary dollar exchange impedes the programme of imports as they have to be restricted unavoidably in proportion to the available exchange. Special arrangement with the United States providing for an adequate dollar loan on reasonable terms may be recommended for this purpose. More liberal releases from the accumulated sterling balances is another expedient. But this does not seem feasible in the proportion desired so long as Britain's own difficulty remains unabated. Without such plant and machinery and without adequate replacement of worn-out existing plant and machinery, economic expansion and growth of the industries using such plant and equipment would be unthinkable. The Government should give high priority to making early arrangements for the local manufacture of industrial plant, machinery and machine tools.

The supply of cheap fuel

Steps now being taken to improve coal mining under Central legislation are the obvious instances by which this great handicap on large-scale machinised industry at the present time, can be met.

Other measures are setting up now hydro-electric installations and power production on the principal rivers of the country. There are several such already in hand. But these will take time to be completed, and so may be of importance and service only in the long run, but not of very great immediate value. Alternative sources of fuel and power supply, either from forests or from mineral oil or power alcohol may be explored, both within and outside the frontiers of the country. It is doubtful, however, if this alternative source would be able to supply more than a fraction of the needs of our expanding industry.

(d) The provision of cheap, adequate and quick transport both for the movement of raw and semi-processed materials and their finished products, made available under a scheme of rationalised freight-structure.

This is the most effective, and yet the least appreciated method—at least under the prevailing Indian fiscal system,—of protecting or encouraging local industry in competition with foreign products. The necessity not only for a varied and adequate transport system by land, air and sea but also a carefully coordinated and integrated one has been emphasised again and again in this Memorandum. Even on land the several forms of road and railway transport along with inland water navigation have to be mutually inter-related, and the aggregate available traffic assigned to each form so as to suit its service to the particular traffic.

The framing of the rates on each form of transport in accordance with the need of each kind of traffic of industrial or agricultural produce is an urgent necessity. The distribution or allocation of this traffic to the several forms of transport are particularly important, after due consideration of all relevant factors. This particular aspect of our national economy has not yet been fully realised. The contribution that can be made imperceptibly and yet effectively to the advantage enjoyed by local industry by a careful adjustment of rates, and dovetailing of the sea transport freights with railway rates or road charges by giving through rates, so to say, needs also to be properly understood and given effect to.

Hitherto, however, the Rail Transport Service, is so far as it was within the control of the Indian Government, has been utilised mainly to make good the deficit on the railways or in the General Budget. The rates and fares were not framed with any conscious regard to their bearing on the development or stimulation of local industry. The sea transport,— whether along the coasts or for overseas carriage, was outside the control of Indian Government or more

likely, perhaps, they did not desire to control and regulate it in Indian economic interest. In any case we cannot repeat too often that in the absence of any proper understanding and careful control and co-ordination of the entire Transport system, the framing of rates in accordance with the requirements of each category of traffic, and the utilisation of such rates and freights to benefit local industry or serve the requirements of national economy, can be effected only if the Transport System is treated as a whole, in all its branches, and is centrally controlled. The National Government must be alive to its development in all its branches,—Transport being regarded really as a great industry by itself—and make it contribute effectively to the national wealth.

The tribute at present levied by the foreign transport owners who provide the bulk of the water transport along the coasts or overseas, is difficult to calculate. It has been estimated at varying amounts, but in any case not much below Rs. 70 crores per annum at the present rates. There is something like 70,00,000 tons being carried along the coasts; and perhaps a crore of tons overseas. Counting the freight charge on all this tonnage at a flat rate of Rs. 40 per ton, the total transport bill would approximate the figure stated above. Of this only a small fraction comes to Indian enterprise. The drain goes on without any chance of the amount thus drained rendering any effective service to the growth of national industry that such agencies may well provide.

(e) *The supply of technical personnel of different grades.*—Remarks have already been offered on this item also in answer to an earlier question which need not be repeated here, in all their fullness. In the past the absence of such personnel was, no doubt, a very serious handicap to the growth of Indian enterprise. At the present time the impediment effect of such a handicap has been at least realised, and plans are being made to get over this as soon as possible. There is, however, much to be done in this field yet before Indian becomes entirely self-sufficient in the matter of technical experience for all the personnel needed for an all-round industrial development in every grade. The devices of establishing our own Technical Training and advanced scientific research institutions may take time to make their quota to the national development. With the immense programme of industrial development awaiting to be implemented and the consequent need of buying abroad stores, plant, parts and machinery, the possibility of getting suitable Indians trained in all the requirements of modern industrial technique cannot be overemphasised for immediate results. The process of selecting such candidates, and still more the ways and means of employing them, when trained, suitably has evoked criticism in the past. It needs to be overhauled and put into tune with the rest of the planned programme of development in every sector.

(f) *The supply of technical information about industrial methods and processes.*—The information Section of the Government of India is very defective, both on the statistical and on the objective or factual side. Before the transfer of Power the means for collecting such information regarding foreign countries were non-existent. Our Trade Commissioners were very few in number, while the Consular and diplomatic service of India in other countries where good sources of supply or good markets could be found for Indian requirements or Indian products were not in her hands. Now, however, that India has her own Diplomatic and Consular service fairly widely distributed, it is to be hoped that this great need of the country's industry for the necessary data and information will be met in the near future adequately and effectively. India's representatives abroad need not function now in subordination to their British prototypes. They must act on their own, and for the benefit of their country alone.

For internal purposes, however, the statistical material, generally found, is insufficient, irregular, and obsolete. Much of this material is published more than a year after the data that the publication presents occurred. And much of that materials is itself neither detailed nor varied enough to meet the requirements of every sector of the national economy.

It may also be added that the only source of information is the official publications. They have been very much impeded in recent years or otherwise affected by unexpected problems facing the Government. There are complications of a political character as well. The entire system of commercial

intelligence and statistical information, for all the varied sectors and items of our national economy needs to be revised radically, and brought uptodate so that the information may be prompt and sufficient for all such requirements.

The excuse of economy that has often led to inadvisable cutting down of such information must no longer be allowed to continue and much less to accentuate this handicap any further. The last census for instance, of 1941, besides many other shortcomings, or omission or oversight, is guilty of a glaring omission in regard to the chapter on occupations. This means that the distribution of our available man-power in the several employments in the various parts and industries of the country, is impossible to ascertain or estimate accurately. All measures, therefore, taken to find suitable personnel or unskilled labour for expanding and increasing industries, for services and utilities would be based on mere guess work rather than on definite and reliable data. The Memorandum cannot, therefore, emphasise too often and too seriously the need for reorganising and bringing uptodate our information relating to domestic as well as foreign subjects, section and statistical material.

(g) *The supply of industrial finance both for use as block and as working capital.*—Observations have already been offered on this item, with special reference to the availability or insufficiency of indigenous capital; and the need that there still might be of attracting foreign capital for investment in Indian industries. We particularly recommend the provision of financial assistance by Government by the establishment of Industrial Finance Corporations in the Provinces, by raising an industrial loan both from within the country and where necessary from outside so that deserving industries may be guaranteed requisite finance on reasonable terms. The Government should also suitably modify the existing legislation and make it sufficiently elastic to enable banks and insurance companies to finance industries.

Question 56.—Once Government takes a step forward and makes a beginning in these matters, it would be reasonable to expect the interests concerned in trade and industry would readily come forward and offer their cooperation. Government, however, must make up their own mind, must be resolved to pursue an appropriate policy for a given period at least, and must devise ways and means so that it makes it easy for trade and industry to offer their cooperation heartily wherever required.

As matters stand, however, Government do not seem to be quite decided as to their own immediate as well as ultimate aims of policy, their own programme of industrial development and the pace of its execution. And so industry has begun to lack confidence, and has fallen into a state of stagnation from which there would be no recovery while irresolution and uncertainty prevail in high quarters on matters of policy.

It would, therefore, be amongst the most important of the tasks of this Commission to recommend specific measures, as well as basic principles of policy, whereby not only could Government's aim be definitised and their programme known on the crucial issues, but ways and means could also be indicated whereby cooperation can be offered up to the extent to which it can be expected from trade and industry.

Question 57.—For giving effect to each kind of facility listed in question No. 55, suitable machinery would be necessary. But the common need for all is the definition of Government's policy in the first instance, its guiding principles and ultimate objectives, and a concrete over-all Plan or machinery devised to attain these objectives and realise these principles. Under a common, coordinated, comprehensive, national plan, with appropriate and efficient administrative mechinery, it would not at all be difficult to devise special machinery to meet the requirements of the various kinds of facilities listed in Question No. 55.

(b) This applies also to the second part of this Question. If industrial development to the optimum degree is to be attained within a reasonable time, and on coordinated and integrated lines, existing machinery would not suffice. It has been evolved *ad hoc* in each case, whether by the sudden, sharp exigency of the War, or such other emergencies as World Depression, or the problems created by the Partition of the country and its aftermath. We must, accordingly,

have a new machinery on a national scale, but with corresponding counterpart on a regional or provincial scale. We must provide for effective centralisation of basic policy, of guiding principles of action and of active, constant supervision over actual administration without needless or vexations interference in detail, without officious advice of unjustifiable arrogation of superior knowledge or greater wisdom in the Central machinery of planning and its implementation. At the same time, we cust ensure the continued and unrelaxing interest and enthusiasm for carrying out the Plan in detail by the actual local or regional administrators. In other words centralisation of policy and guidance as well as supervision must be combined with decentralisation of administration,—which alone can secure the ideal combination of broad vision and deep knowledge of local conditions and individual circumstance. Without such a machinery, consistent policy and smooth, sustained advance on all fronts simultaneously would be impossible.

SECTION F

Fiscal policy in relation to Commonwealth preferences

Question 58.—Under the changed political conditions of India as an independent Sovereign State by herself the question of Imperial Preference has but an academic or historical value. India is, technically, still a member of the British Commonwealth, and as such it is possible that some attempt may be made at closer trade relations between the members of that organisation. But the possibility is unlikely, and its danger remote. India is no longer a dependency whose destinies could be determined by a flat from White Hall. As Republic, she will be an equal and independent member of the Commonwealth; and as such perfectly able as well as entitled to take care of her own interests in any system of closer trade alliances between members of the Commonwealth.

A section of Indian nationalist opinion never regarded Imperial Preference as of any benefit to Indian industry, and to Indian economy in general. It was not so much the apparent money value of the concessions given and received under the system of Imperial Preference that mattered so much as the general reaction on the public mind. The very idea of Imperial Preference appeared in some minds to be tying India for ever more securely to the chariot wheels of British Imperialism; and as such some public opinion was definitely against.

At the present time, the apprehension of the pre-Independence days have very little place. If India now joins any system of closer trade alliances, it would, presumably, be for her own interests as conceived by her own chosen leaders. Opinion may differ on particular details or clauses and commodities of such agreements. But the basic fact of a voluntary pact, as against a pre-arranged scheme foisted upon this country merely because her governance was in alien hands, made all the difference.

The Trade and Tariffs Agreement, and the Havana Charter of World Trade and Employment are concluded by India's own representatives freely consenting to such arrangements. The basic principle of these agreements is to reduce tariff barriers and all other impediments in the way of free flow of goods and service between all the nations of the world, in the hope that by that means universal prosperity would be promoted. There are provisions in the charter which do not preclude entirely the principle of preference. The Imperial Preference has not been without any benefit to India and it may be continued with such changes as may be considered necessary in the light of the changed political conditions in India. If there can be a Union of Western European Countries, why not utilise an existing Union in an advantageous way if that is found possible?

Question 59.—Under present conditions of an independent, sovereign Republic of India, the first condition is utterly needless; as no such agreements would constitutionally be possible to make, without the concurrence or approval of the Legislature.

The second condition or principle is a very necessary one which no Indian Government responsible to the representatives of the people can ignore. On no account should there be any reduction of the protection available to Indian

competiting industry. The principle should be insisted upon for recommending a revised Fiscal Policy. The third principle of calculating in each case the loss or gain on balance of preference agreed to, is a matter largely determined by administrative detail.

Changing circumstances may render the calculations of this year inapplicable to the next. However it is important and advisable to insist upon the principle now also.

In making any such agreement nowadays, it must be borne in mind that the main direction of India's trade is changing, and the new customers' interests and requirements must not be ignored because of old traditional ties. The preference to be given in respect of any commodity will have to be carefully weighed purely on its merit and there should be mutual and reciprocal advantages. There is no point in giving preferences to U.K. in commodities in which she experiences keen competition in India in return for concessions from her in the case of commodities in which we enjoy a virtual monopoly. Further, care will have to be taken to see that Imperial Preference does not stand unduly in the way of India's securing advantages from non-European countries under bilateral or multilateral pacts in future.

Question 60.—This question is unnecessary to answer in detail, as the war which occupied six full years of this decade materially changed the background. Trade could not flow at all in its normal customary channels; nor could it be in comparative costs. Price levels could not be regulated by economic factors alone. Shipping, indispensable for overseas trade, was lacking to a dangerous degree, though even then the Government of India did not learn the lesson of having or building up an adequate efficient mercantile marine for India, owned, manned and controlled by Indians. Under these circumstances the dimensions of such trade as there was were very unnatural; and whether growing or declining the phenomenon cannot be attributed to the stimulus or handicap imposed by the Treaty mentioned in the question.

The growth in customs revenue, which has undoubtedly occurred in the last 10 years to an unprecedented degree, cannot be explained, either by the operation of the Treaty. Rise in prices due to continued inflation much more effectively explains the growth than any influence of the treaty, as the bulk of our tariff is on an *ad valorem* basis.

The rise in the price level, which was even more a noticeable feature of this period is due to the reckless wartime spending without limit, and the consequent inflation in the Note Issue which was practically inconvertible. Trade, and particularly preferential trade, had no chance worth the name of asserting its influence in adding to our customs revenue.

All these were, therefore, no index of the effects of the Indo-British Trade Treaty. For the rest, the analysis of our present day Foreign Seaborne Trade is given in answer to an earlier Question for a period much longer than mentioned in this Question; and so we need not repeat that analysis and comments once again here.

Question 61.—To answer this Question, one must have detailed and up-to-date statistics, which are not available. Absence or insufficiency of adequate and up-to-date information or statistics is, in fact, the persistent handicap throughout in the preparation of this Memorandum. The volume of trade however in this sector, is not large enough to affect the argument advanced above materially.

Question 62.—To answer this question one must have more detailed and up-to-date statistics than are available to the public at large. Even as regards the major commodities under Preference, conditions other than preference in customs duties have so vitally affected the trade, that it would be unprofitable to offer such minutely detailed assessment, even if the indispensable material on which alone such assessment could be based were available in fullness and up-to-date, and the time allowed for answering such questions more liberal.

Question 63.—It is possible, but not much use making such an analytical estimate for reasons given above. The basic idea of the entire scheme of Imperial Preference was different. It is unacceptable or unworkable in its

present form under the new set up. If closer Trade alliances with particular groups of our customers abroad or our sources of supply in foreign countries are made, they will be made with an eye only to India's immediate as well as long range interests, in which mere money values, or quantitative indices may not be all-important.

Question 64.—The answer, to be satisfactory would require a detailed analysis and historical review of the course of trade with the units mentioned ever since the idea was tried out. For such a close analysis and history there is neither the time, nor a sufficient material available to the ordinary public.

In general, however, it may be added that the very idea of such preference being granted or received presupposes actual bargaining on particular items or articles. The bargaining may result in an accession of strength in one direction or another, to one of the bargainers or the other or both. It depends not only upon the skill in bargaining of the several negotiators, but also the overriding power, influence or authority, which, in the days before the Transfer of Power, were not in Indian hands, even as regards Indian economy.

There must also be a very detailed knowledge regarding the articles of trade, the detailed direction of trade with each country, and their costs of production and sale. This last are a constantly changing quantity. Official negotiators, under the then conditions of India, had either not the knowledge, or not the independence of thought and breadth of vision necessary to secure the fullest advantage of such bargain.

Under modern conditions, the essence of the principle of preferential trade with certain countries or groups may bring more advantage, if our negotiators acquire sufficiently detailed knowledge of all the relevant considerations bearing on our trade, and their reaction on our industry. But such negotiations need not be only with the countries of the British Commonwealth ; they may be with any country specially suited to supply our needs and to absorb our produce. We must, therefore, cease to think of preferential trade in terms of the Commonwealth only. This does not mean that we should discard an existing union. As already pointed out it should be utilised to the maximum advantage with necessary adaptation. We would particularly like to emphasise the possibility of developing markets for Indian manufacturers in certain underdeveloped commonwealth areas as also in some similar areas outside the Commonwealth by bilateral and multilateral treaties granting mutual preferences. Such arrangements would be quite necessary as world returns to normal conditions after the post-war period and when competitive world economy is restored.

Advantages other than economic are too intangible to be correctly evaluated, and properly presented. And yet advantages of this type may be more substantial from the standpoint of a growing economic than the merely material benefits measurable in money. But if members of such a Preferential Group could all act together in every instance ; and if their initial bond is conceived in honesty and applied with equity to all, they may, collectively, derive a considerable accession of strength which may then be utilised for the benefit of every individual members of the Bond.

Question 65.—We have already stated that the existing system of preference in the U.K. may be continued with necessary modifications. It has to be noted however that Britain is not in a position to meet India's principal need for the moment—foodstuffs and industrial machinery. England is too busy restoring her own war torn economy ; and she cannot produce food enough for her own present population.

The Dominions are in a different position. They are still predominantly agricultural, though they have also great industrial resources as well as ambitions, comparatively speaking they are better industrialised than India. Nevertheless, India and these countries are more on a level than India and the United Kingdom. Bargaining is possible, and if properly conducted, may be mutually and substantially beneficial. India's present needs of foodstuffs may be supplied by Australia and Canada, almost as well as by Argentine, Brazil or Indonesia : while her requirements of basic machinery and equipment can also be supplied by these Dominions. On the other hand, India can advantageously dispose of her surplus for instance, oilseeds, jute goods and hides and skins as well as tea or coffee to these parts.

It is really a matter for close bargaining with mutual good will. The parallel can be extended to Burma and Ceylon, though the former is no longer a British Dominion.

The remaining British territories are still in the colonial, or primary producer stage. They are relatively undeveloped, separsely populated, and with a low demand. India can find reasonable markets there as well as sources of food and raw materials. Preferential tradê may therefore be mutually advantageous between them also.

SECTION G.

Treatment and obligations of protected and assisted industries.

Question 66.—Yes. The main argument for the grant of fiscal protection financial aid, or other forms of special assistance to indigenous industry is that, without such aid, the industry may never be established in the country, or, if established, it may never grow to its legitimate proportions. And that inspite of its suitability, from the point of Raw Materials, local market, and plentiful supply of labour. To enable an Industry of this kind to take root, the community decides to grant it such assistance and protection, during such period that the Industry is able to establish itself, and to develop to its legitimate proportions. Foreign competition could drive it out of existence, if no such fostering care was bestowed and maintained for a given period. But during that period, while the Industry is taking root, the community will have to bear the burden of its protection, either in the shape of direct cash bounties, or subsidies; or in the form of indirect price increase of the protected commodity or service. This makes an irresistable moral claim of the community, against the industry protected or assisted, that the aid given to it at the cost of the public, during its stage of struggle for survival be returned in one form or another, when it attains to a status, where such return is possible.

The two easiest, simplest and most direct forms, of return are : (*i*) price reduction and (*ii*) wage increase. The former goes to the community at large which consumes the product of the protected industry or service ; and which bore the burden of the indirect protection in the form of fiscal duties. This latter benefits the actual producer of the commodity or service, that has been fostered by the aid of the State.

In neither of these cases, however, will the return by the industry be an unqualified burden upon it. For in every modern industry, subject to what in economics is called the Law of Increasing Returns, the reduction in price would lead to an increased consumption. This would stimulate demand, and in its turn, would enable the industry to effect further economics in its cost of production, and so recoup itself, in part or whole,—or even more than proportionately, for the sacrifice involved in the reduction of the price. But it is essential that price structure as a whole is kept in consonance with the varying rythm of the cost of production so that the sacrifice would be more than compensated to the industry.

In neither of these cases, however, will the return by the industry be an unof the industry, the industry could well expect a sympathetic increase in efficiency of labour. In fact it is the duty and obligation of labour to increase its efficiency in proportion to increase in wages in protected industries so that there may be a reduction in the cost of production. In this way it can only repay its debt to the state which has been paying for the protection of its industries and enable it to get the benefit of reduced prices in the long run. The stablity of the prosperity of the industry concerned also depends in a large measure upon this. The efficiency of labour in its turn will reduce the cost even though the return to labour is higher.

As a rule it may be stated that the labour item in the cost of production in most industries is not more than 60% and often nearer 40 at the rate of the total cost. But if better wages and greater regard to the worker's welfare improve the aggregate efficiency of labour to even the same level, the increased burden on the industry would be more than compensated.

In either of these two cases moreover the demand for price reduction or wage increase would be reasonable if the industry has made progress, and the progress is in the main ascribable to the protection or assistance granted by the State. Comparative statistics of labour efficiency are not available nor, even if they were, would they be absolutely convincing, as factors other than money wages enter into the efficiency of labour. There is further element of the efficiency *e.g.* the tools with which labour has to work. If the owners of industry are unable for reasons beyond their control to bring about timely renovation or replacement of worn out or obsolete plant and machinery neither the management nor labour will be able to make for increased efficiency.

The two items next enumerated in the question stand on a different level. Adoption of technological improvements, known to increase the efficiency of the industry is in the interest of the industry itself. The State has in fact to think of the entire industrial wealth of the country, and not of any particular industry and much less of any establishment in that industry. It should indeed be that the State encourages and stimulates such investment, either by permitting a greater share of the profit or surplus derivable from this improvement to remain in the hands of the entrepreneur or proprietor; or even aid him, by loaning capital at a low rate of interest during the period the improvement come into working order. By this means, those who would not effect such improvement in a timely manner would be automatically tempted or less protected than those who promptly and willingly bear this obligation implicit in their receiving protection.

The initiation of research for enhancing industrial efficiency is still in this country mainly an obligation of the State. Government is primarily responsible to set up and maintain such research institutions; or the burden is shouldered by the Universities which are semi-public institutions. The realisation by the leading industries of the value of such research in the improvement of their own prospects is slow and hesitating. Perhaps it is as well that the State has the dominent voice in providing and maintaining such research facilities, least private industry should make a fetish of secrecy of new discoveries or inventions, or improved processes for their own exclusive benefit. The good of the country as a whole can be promised only if the research is spread on the widest area, and the benefit available in the fullest measure.

Training of apprentices and Government scholars and stipendiaries is a recognised obligation even today, upon those foreign concerns which supply stores and other requirements of Government. In the usual agreements with foreign firms which provide such supplies, this clause has laways been insisted upon in the last 30 years, when our Stores Purchase Policy was rationalised, and made more congenial to Indian industrial development. If such an obligation could be shouldered without demur by foreign suppliers to whom no direct benefit or indirect protection is given by our Government beyond purchasing their wares in an open competitive market, it should be indisputable that our own industries, built up by the protection or assistance of our Government, should assume this obligation without any hesitation.

It is, besides, to its own advantage to have such trained personnel, easily available in their own enterprise. One of the handicaps of Indian industry today is that the necessary skilled technicians and experienced scientists are lacking in the number of proportion required. By this method the industry would be able to train up, within a reasonable time, the trained personnel needed, and, if simultaneous and reasonable arrangements are made for their absorption and employment within the industry itself the entire problem, which now is said to hinder or impede the maximum possible growth of industry in this country would be solved.

The last item given in the Question finds its justification, as much on ethical, as on economic grounds. The benefit of protection having been received, in the first place directly by the industry, and under the present social order, industry being owned and managed by the capitalist provider of the place, material and tools of work, he is in a position to monopolise the resultant gains all to himself. The root of the prevailing social discontent in all countries lies in the consciousness, that the capitalist owner of industry, or even the entrepreneur building up an industry, gets for his investment or enterprise a disproportionately larger

share than is justifiable. The injustice seems the greater, when the owner's profits are due in a considerable measure to the protection granted, directly or indirectly, by the State. There is, moreover, in every profit derived from modern industry, an element due to the social endeavour, or special conjuncture, as it is called by some economists, which may well be regarded as "Unearned" income. This can be more equitably shared with the rest of the community. Hence the need for and justification of a greater or closer control on Distribution, in the sense both of the commodity or service produced and supplied with the help of such protection, and in the sense of increased purchasing power, or better standard of living to the community as a whole, besides the share obtained by the immediate participants in the working of the industry.

Question 67.—Yes, for otherwise, the benefit resulting from the protection would be taken in a disproportionately large measure by only a small section of the community. Restrictive practices tend to create a monopoly, a close Trust which can only flourish at the expense of the community, both in the present and in the long run. The highest gain for the monopolist result for the limited output, which would restrict supply, and so secure better prices from the same expanding demands. This is obviously not in the interests of the country, which seeks to build up a broad based industrial system. The same logic applies to the other two items, which are all feasible, generally speaking, under monopoly conditions. The history of the American Trust is eloquent of the abuse possible, under a protectionist regime of all these kinds. The provision, again, in all Railway rates legislation to forbid unfair discrimination as between customers,—*i.e.*, in the distribution of their service as monopolist carriers,—is another illustration of the same logic. A stipulation is thus necessary every time protection or assistance is granted to any enterprise that such practices should not be allowed. The most effective means to give effect to this condition, would be by a system of Licensing each concern or enterprise. The conditions contained in each license would see to it that such practices are not permitted. If the license is renewable from time to time, and liable to be discontinued on the breach or evasion of any of its conditions, the danger would be much less.

Question 68.—Generally speaking, it would be desirable to have all such industries organised as joint stock enterprise. Under that form, there will have to be a wider distribution of capital investment, and automatic training to the investor in what we may call Industrial Self Government. Such industries would, as a rule, require much larger capital than single individuals may be able to furnish from their own resources. Even if Banks and other Credit institutions are drawn upon for the working, if not fixed, capital, the latter would find better security in a joint stock concern than in a single proprietary or partnership concern. A fair deal to the labour engaged is also easier to achieve in the joint stock public company organisation than in small, scattered individual proprietary enterprise. There is, moreover, greater publicity in accounts, in the working and management of a joint stock concern than would be possible under a single individual proprietorship, or even under partnerships. Such publicity is desirable in the interests of a more effective control of the industry affected, as well as to facilitate aid being given if and when and how it may be needed. The principle may be modified in enterprises which are engaged in some essential production or service, *e.g.*, insurance business, where some form of co-operative organisation, or mutual aid, may be more suitable and sufficient, economical and advantageous. Under both these forms, it would be easier to maintain supervision and control over the working of such concerns, and particularly the financial and production aspects. If, for instance, excessive reliance is placed, for working capital on borrowed, short term accommodation, or even as regards fixed capital, it may endanger the entire financial system of the country, and may induce an unnecessary crisis. To guard against all these dangers and to facilitate reaping the fullest benefit of State aid to industry or protection, the suggestions made above are advisable.

Question 69.—There are at present hardly any standards whether in the protected and aided industries, or in the non-protected group. For lack of standardisation, there is a needless loss of market, and impediment to consumption, which only reacts to the prejudice of the country production. The

recently established Indian Standards Institution is consequently to be regarded as a step in the right direction.

It is in the general interest to let a central institution of standardisation like the Indian Standards Institution to do the work of preparing standards and controlling quality of industrial products. The Indian Standards Institution has done much useful work in this direction in the short space of time since its establishment. To improve matters quickly it is necessary to enact legislation and create requisite machinery under the Indian Standards Institution to control quality of production both of protected and non-protected industries.

The Indian Standards Institution as it is at present constituted is the proper body to standardise and control quality. This Institution should be empowered by legislation to license to producers the use of its certification mark to be placed on those products which fulfil the standards laid down by the Institution. The procedure laid down in the Indian Standard Institution and other rules for the preparation of standards is sufficiently representative of all interests concerned, and the care with which this Institution prepares the standard-specifications is a testimony to its ability to do the job properly.

Question 70.—If these obligations are at all to be enforced, it is indispensable that they be given statutory effect. They cannot be left to be prescribed on an *ad hoc* basis for each industry separately. For, in that case, there would be no standardisation, or common pattern, under the country's fiscal policy as such. Standardisation is necessary, not only for the benefit of a given Industry or its market; it is needed in the aggregate interests of the country's economy as such.

Moreover to permit the tariff making body to prescribe such obligations for each industry separately, when it seeks protection or assistance, would be investing the tariff making or recommending body with an excessive and undesirable authority, power, or function. The primary function of a tariff-making body,—whether appointed separately for each industry when it asks protection or embodied in the permanent machinery under the Fiscal system of the country, is to *investigate* the conditions of the industry desiring protection, its cost of production and handicaps, its market and potentiality; and thereon suggest the most effective and appropriate method of securing its utmost development. In its recommendations it should also include suggestions about imposing the necessary obligations, conceived as much in the interests of the industry, as of the country at large, and to guard against the possible abuse of protection. It cannot be clothed, therefore, with legislative—and still less with judicial authority, power or function. For otherwise, room for corruption would increase and the enforcement of those obligations beset with unforeseen and innumerable difficulties.

Question 71(*a*).—Some administrative machinery would be needed to see that the obligations imposed by the appropriate authority, at the time of granting protection are duly carried out by the protected industry.

The existing administrative machinery under the Director General of Indutry and Supply at the Centre and the Directors of Industry and the Chief Inspectors of Factories in the Provinces should be utilised for the purpose of obtaining information on the observance or otherwise by the protected industries of their obligations. This information should be placed before the Advisory Committee or the Licensing Board proposed to be set up under the Industries Control and Development Bill now on the legislative anvil. The Tariff Board should also have its own secretariat to watch the progress of protected industries.

(*b*) & (*c*).—No reply is necessary to this in view of what has already been stated above.

In a properly planned economy protection or assistance to specific industries will have to be given as a part of the general plan of industrialisation.

However, it is not desirable to have representation of the Government on the management of protected or assisted industries because it will lead to unnecessary interference. The surveillance exercised by Government and the Tariff Board under machinery proposed above would be sufficient. Association of Government in the management can only be justified in concerns in which Government hold a direct financial interest and not in all protected industries. Further it would be physically impossible for Government to be associated with the management of all industries.

Section H.

Organisation, Methods and Procedure

Question 72.—The present administrative machinery consists mainly, of (a) The Tariff Board, appointed originally *ad hoc* for each industry applying for protection or aid to investigate its conditions, and make recommendations for its protection, or otherwise, in such form, and no such conditions as the Tariff Board may think proper and of the Ministry of Commerce. The application of each industry has, in the first instance, to go to the Commerce Ministry, not the Ministry of Industries with a *prima facie* case for protection. Only if Government refer the case for enquiry, can investigation be made the problem considered in all its aspects, and recommendations made. If those recommendations involve legislations, the Report would have to be placed before the Legislature'; and that body may take its own decisions on those proposals. A Bill based on those recommendations, will have to go through all the usual stages of a proposed legislation, though facilities would be found for its enactment as a Government Bill.

In this arrangement, there is neither appropriateness, permanence, nor co-ordination of all the various requirements for implementing the Tariff Board's recommendations. The very Ministry which deals with this matter, is not the Ministry of Industries, but of Commerce. The trade aspect is made more important than the industry aspect,—probably because, in the first inception of this policy, the foreign trade of such protected commodities was most important.

The problem of developing industries by every legitimate means has yet to be conceived as part of the aggregate national economy not an isolated feature in an uncoordinated jumble. The emphasis on production has yet to be placed upon its proper degree; while the Distribution aspect of successful protection to Industry is all but ignored. There is, in other words, no co-relating co-ordinating and integrating machinery, to make all the various facts and items in the policy mutually sympathetic parts of a common, consistent programme. There is neither planning, nor programming, on overall view of the country's economy, no comprehensive conception of the nation's future.

The Tariff Board has, in recent years, been made somewhat more permanent; and a group of applications is referred with certain standing terms of reference in pursuance of a common policy. But delay is still inevitable, as the Board cannot consider applications *suo motu*. Nor is it made an integral feature of the administrative machinery. This organ, or some other of its kind, more permanent, more broad-based, and wider powered, must be made part of the entire administrative system. And that system must be designed to carry out industrialization as per a definite plan, comprehensive and co-ordinated and requiring simultaneous advance on all fronts, as far as possible. The system should also provide for integration and co-ordination of the working of (1) the Tariff Board (2) the Planning Commission suggested to be set up at a later date in reply to question No. 73 and (3) the proposed Industries Licensing Board or Advisory Committee envisaged under the Industries Development and Control Bill.

On the non-fiscal side, the lacunae in the existing machinery is much greater. Measures relating to the assurance of suitable and sufficient quality of raw materials; and adequate transport and marketing facilities, of credit and insurance, lie with almost exclusively in its own compartment. These must be integrated, mutually co-ordinated, and made to act in concert, all functioning to attain a predetermined goal. Banks, railways and ships, power

sources, consular agents and diplomatic arrangements, negotiating and concluding trade treaties will all have to work together to make the aggregate policy a consistent whole and an absolute success.

Question 73.—The changes needed for implementing a comprehensive policy of all round Industrialization, within a predetermined period, have been stressed by our Organization from time to time. A succinct summary of these proposals will be found in the "Industrialization Scheme in Two Parts" brought out by the President of our Organization, Sir M. Visvesaraya in 1949.

If industrialisation is to be carried out in an ordered, all round, simultaneous and smooth manner, an overall machinery, like that of the National Planning Commission would have to be set up after sometime. Such a body may be representative of the interests concerned, as well as of Government. Its presidency may be vested in the head of the Government, to give prestige, and to make its recommendations weighty as well as balanced. The Planning Commission should only be an advisory and recommendatory body and should not be invested with any executive functions. But the present time is not yet ripe for the appointment of a Planning Commission. We should not add to the existing committees and commissions without making sure that the plans programmes, policies and recommendations of all these bodies can be translated into action.

The control and supervision over each protected and assisted industry, including the fitness and adequacy of the means by which such protection or assistance is afforded, or its form may be entrusted to appropriate Directorate of the Director General of Industry and Supply for each group of connected industries, embracing all the undertakings within each industry, and corelating all activities, from getting raw materials to marketing finished products. These Directorates would be mutually co-related, and make to act in harmony, under the general supervision of the Director General of Industry and Supply.

The relations also, in respect of giving effect to the Plan, as between the centre and the units, would have to be attended to by reproducing, on a smaller scale, the national machinery and organization on a unit scale, going down to the smallest practicable unit in each case, and connecting those units into a national system by linking up each in an ever widening federal chain. Arrangements should also be made for greater co-ordination between the centre and federating states of the Union in all matters relating to industry as at present in a number of cases projects sanctioned or supported by the centre are held up in execution for want of requisite co-operation or encouragement from the provinces.

Question 74.—The detailed answer in the previous question will suffice in this case also. Planning Commission should not be the head of the comprehensive organization but only a part of it. As suggested before its activities should be co-ordinated and integrated into those of the Tariff Board and the proposed Industries Licensing Board or Advisory Committee envisaged under the Industries Development and Control Bill.

Question 75.—A series of separate, independent, uncoordinated organisations each dealing with a specified branch or department of the work, would lack cohesion, and be unable to take co-ordinated action. Even if some arrangement is made by which these independent offices or organisations are interrelated, there would inevitably be an amount of red-tape and consequent delay which would not be in the best interests of the country. It is possible no doubt to devise better methods of prompt action, but the more numerous and independent these organizations are, the more would be the everlapping delay and red-tape. The plan suggested in answer to question 73, and repeated above would be much better calculated to meet the needs of economy, efficiency, and despatch than separate organisations would ever be able to achieve.

Question 76.—A Tariff Board or some body carrying on the functions now vested in the Tariff Board, will necessarily have to be an integral part of the organization suggested above in answer to question 73. It has also been shown how and where it would be necessary to differentiate the founctions, powers and authority of the Tariff Board as conceived in this Memorandum as against

those now entrusted to that Board. But having made the Tariff Board a permanent and integral part of the fiscal machinery, which will itself work in coordination with the National Planning Commission, it would be inadvisable to leave the other corelated functions utterly uncoordinated mutually. There should be an Eoconomic Committee of the Cabinet for all functions requiring coordinated action in all matters of policy. This Committee should meet regularly to coordinate the economic activities of the various Government Ministries and to expedite their decisions on economic questions.

Question 77.—As already stated above, some special authority, investigating into the conditions of each industry seeking protection or assistance from the State, would be indispensable. It must be an integral part of the machinery suggested above. Whether it is a single Central all-embracing authority, like the National Planning Commission, or some disjointed organisations of different Ministries, Local Bodies, Directorates, or Departments, a Tariff Board or an Authority corresponding to that Body familiar to us today would be indispensable. It may be remodelled in its constitution; and there may be some variation in its functions and powers; but in essence, it must be a part of the machinery for giving effect to the Fiscal Policy we have envisaged, to investigate conditions before protection, assistance or encouragement in any way, is recommended to any industry or business.

Question 78.—What agrees that the Tariff Board, or that part of the Fiscal machinery which investigates the conditions of every industry seeking protection or assistance, must be an indispensable as well as a permanent organisation. It must function as part of the main machinery, but within the sphere assigned to it. It must have ample scope to do justice to the task assigned to it.

The constitution of such a body would necessarily be from amongst people acquainted both with the theoretical as well as the practical side of each industry seeking protection or assistance. The Tariff Board today consists of usually three or four members,—too small a number to provide all the varied inside knowledge of the several industries, and their peculiar conditions differing from region to region, which is necessary before a proper investigation can be made. It is also insufficient to provide adequate practical knowledge of the nature and consequences of the several forms in which protection or assistance can be given to industries, businesses, services, utilities. Finally, a sufficient knowledge of the administrative routine is also necessary if only to ensure proper management, orderly progress and avoid unnecessary waste.

Because of these reasons, even if a Tariff Board is set up with a limited permanent personnel, it must have power to co-opt or add to its number for each particular enquiry that it may have to conduct, so as to make its investigation and recommendation as fair and reasonable as possible. We would, therefore, suggest that the new nucleus of this organisation, a permanent Tariff Board, may be composed of not more than seven and not less than three members, selected from the public life of the country. Industry, big business, or Science would no doubt, have their fair share. At the same time, independent professional economists, providing the basic scientific knowledge, must be included, side by side with representatives of Government, of the general public and of the workers, to give a comprehensive and balanced complexion to such a body.

In addition, there should be, as just stated the power to co-opt and add to the number for each enquiry separately whatever may be found necessary for that purpose. While the life of the permanent members of the Tariff Board, thus conceived, would be for a definite period of three or five years, subject to re-appointment, but not so as to make a monopoly or life tenure for some individuals, the life of members, added or co-opted *ad hoc* for each enquiry separately, would necessarily be limited to the course of that particular enquiry. Ordinarily, no enquiry would or should extend beyond one year at the outset.

Both the original and co-opted members would have, while sitting as a Board, the same status, rights and duties. For the rest, remarks made in answer to Question 73 above may be read along with the present answ--

It may be added that the element of impartiality necessary in members of the Tariff Board is not so much the impartiality of a high judicial officer of Tribunal. It is rather the impartiality of trained and balanced judgment with reference to competing or conflicting interests. Naturally there would be an inevitable bias in favour of domestic industry as against in foreign competitor in the same field. But that is the bias or partiality rather of the detective, or objective investigator seeking to bring out facts and put them in their proper perspective, in connection with two or more suspects of the same offence,—than of the trying Magistrate, who is impartial as sector of that industry within the country and from outside; the reorganisation of our small-scale industry on a co-operative basis all over the country, as suggested in answer to a previous question, would be inevitable. By that process the entire industrial, or rather the whole economic organisation of the country, would come to be reconstructed and placed on a basis of mutual sympathy, rather than of competition and conflicts between all kinds of apparently opposed interests. This would be an indirect contribution of the Tariff Board, but it would nonetheless be significant and substantial for the growth, expansion, and development of the country as a whole.

It would be another proof of the view now being commonly accepted that, in the economic life of the country, we cannot disconnect, isolate and consider each aspect or item by itself, since they are all inseparably inter-connected. For adequate and appropriate consideration attention and development, a comprehensive view is indispensable. The larger machinery of the Planning Commission, suggested earlier, is, therefore, unavoidable.

Question 84.—In the view we have taken in this Memorandum of the role and functions of the Tariff Board, the answer must be clear to the Tariff Board. It would save unnecessary delay and waste of time, if the Tariff Board is empowered directly to receive and consider such applications, or even to invite them on its own initiative, and to make its suggestions after its own investigation without any application. Government is the appropriate authority to consider the recommendations of this body, when, after careful and searching investigation and full consideration of all aspects and conditions involved, it submits them to Government.

The authority of the Supreme Government is, therefore, not in any way affected by providing that the Tariff Board should receive such applications directly, and sent out its own invitations, if it thinks so necessary to those parties, organisations or individuals whom it thinks best qualified to offer technical scientific or general advice from actual knowledge and experience, and without any special interests of the adviser's own to promote. These powers would have been given to the Tariff Board under an Act of Parliament, which must be based on an exhaustive consideration of all relevant considerations. The Board would function under such an Act and authority, and so would be in derogation of any other authority.

Question 85.—The question involves inevitable repetition of a good deal that has gone before. Briefly stated, the procedure we should recommend would be :—

(i) The Tariff Board in its general powers may keep up a constant survey of the industrial field; and in pursuance thereof, may call upon any party or organisation to place before it that body's views on specific matters relating to a given industry or a group of industries.

(ii) Parties directly concerned or through their organisations like chambers of Commerce, or associations of manufacturers or their experts, may, like-wise, be permitted to present, without any special invitation from the Tariff Board, their case before that body for a grant of protection or assistance in any form they think suitable to a given industry for a given period; or to vary the existing protection in any form or degree that under changing conditions may become more appropriate and effective; or even discontinue any existing form of protection.

(iii) Any body interested in each enquiry, when one is going on, should also be entitled without invitation or even without direct concern, to offer his

views or suggestions to the Tariff Board while its enquiry is in progress. For the Board should make its own enquiry and investigation, involving careful consideration of the conditions affecting the given industry or industries, at Home and abroad, on the large-scale and small-scale, calling for advice of such further experts or experienced people as the Board thinks necessary.

(iv) On completion of such enquiry the Board should formulate its broad conclusions, and make specific recommendations to Government.

(v) On such recommendations having been received, the appropriate Ministry of Government, or the Government as a whole, should consider them, and adopt such measures or take such action as they, in their supreme authority, may consider desirable and appropriate in each case.

(vi) If in any case legislation is necessary to give effect to these recommendations, Government should undertake and carry through all its prescribed stages in Parliament such legislative proposals.

(vii) If any changes in existing Trade Treaties or international obligations becomes necessary, Government should set afoot the necessary negotiations and conclude appropriate treaties or make arguments.

(viii) Finally, if any modifications in execution, procedure, or activity becomes necessary, *e.g.*, in regard to Licensing conditions, credit facilities or transport rates, Government should take the necessary action.

Question 86.—Most of the improvements have already been suggested in answer to previous Questions on the subject. If the Tariff Board becomes a permanent institution, and has power to act on its own initiative, as well as to keep up a constant survey of the economic situation, it would itself come to know of the changes that may be happening, and suggest ways and means of making adjustment to meet those changes.

It would, however, be at the same time, advisable for the Board to receive any information from those competent or qualified to give it; and for that purpose arrange its procedure and organise its work in such a way as to be easily accessible to those who can advise and assist. Whatever enquiry is being conducted at any time, whether on the Board's own initiative, or at the instance of Government, or on application from any party concerned, it should be notified to the public through the usual channels of publicity, and also by special intimation known to the Board as competent or qualified to speak on such matters. A general invitation should also be held out to anybody in possession of appropriate information and willing to place it before the Board. On the other hand, the Board also should be able to call upon any person, body, or authority, which it believes has information, knowledge or material that would throw helpful light upon the subject under enquiry, to lay such material etc. before the Board to answer specific question from the Board and furnish such information etc. or offer such advice as may be required.

By such arrangement it would be unnecessary to insist upon public hearings; the entire proceedings would in theory as well as practice be public, in the best sense of the term. Only at the stage of the Board's own deliberations to consider the material before it, while formulating its conclusions and recommendations, should the Board be entitled to hold its sittings in camera. As the proceedings would be open to the public and published in the Press, and as the proceedings would be published by Government, the final deliberation at the time of arriving conclusions and making recommendations may be private without any harm.

Question 87.—In the view which has been taken in this Memorandum of the nature and function of the Tariff Board in building up the country's productive enterprise on all fronts simultaneously, and safeguard it against any unfair competition or needless handicap the recommendations of the Board would naturally be based upon exhaustive investigation and full deliberation. The Board being composed of, or sided by, seasoned experts acquainted with all sides of the question being enquired into, its recommendations would be naturally to the point, and calculated to promote the object in view.

As a rule, therefore, such recommendations should be given full consideration by the Government with whom the final word should rest, particularly as there may be cases in which Board's recommendations may fail to take into account aspects of the matter which Government alone are in a position to deal with, or special circumstances and conditions, may have arisen unknown to the Board, which the representatives of the people in the Legislature would be the best qualified to deal with. Under those conditions, it would be unwise to impose an obligation upon Government to treat the recommendations of the Board final and binding upon them in all cases.

The administrative difficulties inherent in giving effect to recommendations may also not have received their due attention from the Board in the latter's desire to see the earliest and fullest implementation of their suggestion.

For these reasons, we would not make the acceptance and implementation of the recommendations of the Board compulsory upon Government.

Question 88.—The scheme of re-organising India's Fiscal Policy, designed to promote all round economic development, within reasonable time, suggested in answer to previous Questions, contemplates formal establishment of a statutory Tariff Board with its powers and functions prescribed by law. A permanent organization of this vital importance should not be left to be set up merely by an executive decree or even by a Government resolution. This was the case when Government was not fully responsible to the representatives of the people and did not always desire to obtain their reactions. An executive decree or resolution of Government may be more easily changed, in vital particulars, than a formal statutory provision, especially under the stress of Party rule. The danger of unnecessary and frequent changes in basic policy, particularly in matters needing a degree of permanence or stability to allow long-range plans being made, cannot be exaggerated.

Assuming that the permanent Tariff Board would be established, and its powers and functions prescribed by a statute, it is not necessary, however, to lay down that such a statute should restrict itself only to the constitution of the Board and laying down its rights and duties. As we have envisaged this institution, we consider it very likely that the Board itself will form part of a much larger and more comprehensive machinery which would carry out the entire Plan of all-round national development, including the elaboration of basic principles of policy, the provision of the instrument of agency by which that policy is to be implemented, the procedure to be followed, the conditions of safeguard that may have to be imposed in the general national interests and other revelant matters.

But even though the scope of such an over-all organisation may be determined by an Act of Parliament, its several articles should be in the form of general propositions. Matters of detail, such as those relating to the Board's own procedure at the time of making enquiries ; the parties to be invited, or the form of invitation to produce the requisite information for carrying on the investigation and laying down the conditions relating to the protection to the different industries, their costs of production, marketing and other incidental or ancillary services, or facilities, advantages, would best be provided for the rules made by the Board under the main Statute. These rules of procedure may be made by the several authorities each for itself under this Statute. These include the Planning Commission, the D.G. I. & S. the Tariff Board and any other agency or body that may be created or maintained such as Licensing Board or Advisory Committee contemplated under the Industries Development and Control Bill.

These bodies or authorities will not be subordinate to the Planning Commission. They will, however, have to work in mutual and coordination, so that automatic correlation and dovetailing may be effected wherever necessary with the least possible delay. Each of these bodies should within its own range be autonomous, as far as possible ; that is to say, it would have powers to make its own rules of procedure, and regulate its own business. This would combine the advantages of specialised knowledge and experience with common, composite machinery for administration. causing the least friction. delay·or red tape.

If on any point there is a lacuna or absence of any specific provision regarding rules etc. Government would always have the power to issue special instructions. The procedure in fact of issuing instructions under the basic principles provided for in the legislation mentioned above would be both flexible and adequate to meet all requirements not directly dealt with by the main statute. Such instructions may be in the form of the Government Resolutions, or any other less formal communication to the body or authority concerned like the Tariff Board. What is sought to be attained by this outline is a combination of elasticity in actual administration, with the clarity of guiding principles governing all bodies or authorities concerned.

In this manner, then it would be possible to combine the particular advantages of flexibility of administration with rigidity of the basic principles, The Tariff Board's position would, of course, be in no way less important, or its influence less effective than is the case to-day. It would be competent to make its own rules within the powers, functions and authority given to it; and so it can guard quite effectively against any risk of excessive or misplaced rigidity, whether for purposes or investigation, for deliberation or for making recommendations.

Fiscal Commissions' questionnaire—Part II relating to the question how far it would be desirable to undertake international obligations of the kind involved in the general agreement on tariffs and Trade and the Charter of the International Trade organization in the Country's requirements.

Question 89.—The Working Committee of the Organization are in full agreement with the basic purpose of the Charter. In fact, recognising the great contribution which a steadily expanding international trade on a multilateral basis can make to the maintenance of international peace and prosperity, the Organization passed a resolution on "India and the International Trade Organization" as long ago as April 1947 at its Annual Conference held in New Delhi, wherein it welcomed the efforts that were then being made to create a proper international machinery to co-ordinate the commercial policies of various nations. A copy of this resolution is forwarded herewith.

Of the six objectives enumerated in Article I of the Charter, the Committee take exception only to the Objective No. III which relates to furthering the enjoyment by all countries, on equal terms of access to the markets, products and productive facilities which are needed for their economic prosperity and development. In the resolution referred to above, it has been pointed out that it is the inherent right of every Nation to preserve scarce materials and to utilise to the fullest its own material resources under the land, on the land and in the air before making them available to other nations. The freedom of access on equal terms to the world's markets raw materials may be necessary for the industrialised Western countries to maintain their standard of living, but it is not compatible with the legitimate demands of other countries like India, which are backward or relatively undeveloped and which have to make up a great leeway in their own economic development. At present the available and potential resources of these countries have not been developed to the extent they should be, and their markets are supplied by imports from abroad. The living conditions of the majority of the peoples of these countries are applying low. To bring about their industrial and economic development these countries cannot but take steps to conserve their raw materials, so the raw materials may not be carried away by other countries at the cost of their indigenous industries being starved of them.

The Working Committee stress that in view of what is stated above, the Charter should be so worked as not be place any impediment in the way of countries that have so to say "found themselves" only recently and desire now to preserve their raw material and markets in as large a measure as possible in the interests of their own industries. In case the working is not found satisfactory, economically under developed countries of which India is one will have to press for necessary modification of objective No. 3 at the Special Session of the Members of the International Trade Organization to be convened at the end of the fifth year after the entry into force of the Charter.

Question 90.—No.

Question 91.—The provisions of the Charter which relate to the functions of the International Trade Organization for promoting economic development and reconstruction of relatively backward areas are largely of an advisory character. Though there is a clause to the effect that members shall not impose unreasonable or unjustifiable impediments that would prevent other members from obtaining on equitable terms facilities such as capital funds, materials, modern equipment and technology, and technical and managerial skills it is not clear how the Organization can effectively intervene when a particular industrially advanced country does not extend its full co-operation to a less industrially developed country in making available these facilities.

In the opinion of the Working Committee, it is the inherent right of a nation to develop her industries to the maximum capacity possible consistent with the extent of her raw material resources, labour force and available market within its own frontiers and that in the exercise of such a right an outside authority like the International Trade Organization should not interfere. They, therefore, are not in agreement with the condition imposed in clause 7 of Article 13 where it is said that the International Trade Organization shall not concur in any measure under the provisions of (i), (ii) or (iii) of 7 (a) which is likely to cause serious prejudices to exports of a primary commodity on which the economy of another Member Country is largely dependent.

The Working Committee are also of the opinion that it is modest, reasonable and legitimate demand of a nation to build up by every possible way what are called key or essential industries necessary for the very existence of a nation irrespective of the fact whether it has all the necessary raw materials within the country itself or not. This right too cannot be allowed to be interfered with by an outside agency. No provision has been made in sub-paragraph 7 (a) for automatic release in this case for a specified period from restriction imposed in Chapter IV of the Charter on application by member.

The Working Committee do not also approve of the condition imposed in the case of application for continuation of the non-discriminatory measures after the expiry of the specified period for which concessions were granted. The extension of the release period should be automatic on application if the member concerned feels that the same is required after a thorough enquiry and investigation into the matter by a duly authorised machinery of Government set up by it for the purpose. To withdraw suddenly protection or assistance enjoyed by an industry would be disastrous.

The sub-paragraph 3 (b) of Article 13 is not clear, in the event of failure to reach complete or substantial agreement as a result of the negotiations between members initiated by the Organization. In case no agreement is reached the applicant members should be free to institute the proposed non-discriminatory measure after informing the International Trade Organization.

Question 92.—Yes. But it would be more practicable and in the interests of international investment itself if some basis or standard is laid down as to what is considered "adequate securities and reasonable opportunities"—words which are used in Article 12 of the Final Act. Adequate safeguards should be specified to see that concessions granted are not taken undue advantage of to resort to unhealthy competition with national industries with a view to keeping the country under perpetual foreign economic domination.

Question 93.—Yes, but with the following reservations.

It has been pointed out earlier that industries processing indigenous raw material and depending upon indigenous markets as well as key and vital industries should be allowed to develop without any outside hindrance. It is the duty of the Government concerned particularly in the case of economically backward and under-developed countries to provide, requisite aids for the purpose through tariffs, subsidies, bounties, reservations of indigenous raw materials, preferential treatment in railway rates, etc. This should be accepted as a cardinal feature of commercial policy though necessary safeguards may be provided by the International Trade Organization against possible abuse of

such measures. But it must be left to the sole discretion of each country's Government to determine when and to what extent such safeguards are to be applied.

The two types of industries referred to above should have been included in Article 45, relating to General Exceptions to Chapter IV. As this has not been done, the Working Committee take exception to Articles 17, 18 and 20 of Chapter IV restricting freedom of under developed nation to develop, protect, and encourage and safeguard these industries by every legitimate and practical measures and so achieve an all round development of her economy within the shortest time possible.

In the opinion of the Working Committee the Article 25 relating to subsidies also requires some modification. The use of subsidies as a protective measure by industrially undeveloped countries should be recognised. When the Government of an undeveloped country finds that its industries are meeting with unfair competition from abroad or are not sufficiently developed to meet the competition of those countries which are technically far in advance, it would be justified in subsidising its industries to make the competition a fair one.

Question 94.—Please see reply to Question 93.

Question 95.—In the long run only. As India is having balance of payments difficulty now, she will be free for a few years to come to impose import restrictions to safeguard her balance of payments position. The following measures can be adopted by India during this time.

1. Complete ban on imports of items considered unnecessary *e.g.*, toilet requisites, novelties, and other luxuries. This is mainly to ease the exchange situation.

2. Preferential treatment for imports of bare necessities and of raw materials to give impetus to industries to make finished products at home.

3. Preferential treatment for imports of machinery to make machinery.

Question 96.—As the Charter cannot be modified now, and it is to be either accepted or rejected, the Working Committee have no objection to India's acceptance of the Charter for the present as a temporary measure. During the first three years, India has the advantage of being on the Executive Board. If as a result of the obligations incurred under the Charter India's economy is affected adversely she can make use of the escape clauses provided for the time being. India will be at liberty to leave the Organization after the expiry of these three years if she considers it to be necessary at that time. In case she continues further the Delegates sent on behalf of India should press for necessary amendments in the Charter in the light of the observations made here at the Special Session of Members to be convened for a review of the Charter, nearest to the end of the 5th year after the entry into force of the Charter. If these amendments are not accepted, India could then consider the question of leaving the International Trade Oragnization immediately.

Question 97.—This does not arise in view of the reply to the above question.

Question 98.—In electing members of the Executive Board and also of the Commissions to be set up the Conference should have regard to the necessity of giving adequate representation to under-developed countries. In the first Executive Board India has already been given a seat and she should be given adequate share in the Secretariat of the Organization in view of her large share in the International Trade and the prominent place she occupies in Asia.

COPY OF THE RESOLUTION ON "INDIA AND THE INTERNATIONAL TRADE ORGANIZATION" PASSED AT THE SEVENTH ANNUAL CONFERENCE OF THE ALL-INDIA MANUFACTURERS' ORGANIZATION HELD ON 14TH AND 15TH APRIL 1947, AT NEW DELHI.

India and the International Trade Organization.

Recognising the great contribution which a steadily expanding international trade on a multilateral basis can make to the maintenance of international peace and prosperity, this Conference welcomes the efforts that are now being made to create an appropriate international machinery to co-ordinate the commercial policies of various nations and to free international trade from the shackles of arbitrary tariffs, quota restrictions, discriminations, cartels and monopolies.

The Conference, however, is of the opinion that (a) such international agreements should cover not only exchange of primary raw materials and finished goods but should also include the exchange of secondary, industrial and semi-finished materials, capital goods, later technological knowledge and technical personnel; (b) the development of under-developed countries should be recognised as one of the major objectives of the proposed International Trade Organization and that it should be explicitly stated in its character; and (c) the recommendations made in the draft Charter in regard to the removal of restrictive business practices should not be confined to 'commodities' only, but all be extended to services such as shipping, banking and insurance where unfair restrictive practices are quite often adopted by many vested interests to hamper the growth of such services by under-developed countries.

The Conference is further of the opinion that industrial and economic development of under-developed countries could be brought about only by a planned regulation of export and import trade and the development and promotion of existing and new industries through adequate State assistance and protection. The Conference holds that it is the inherent right of every Nation to preserve scarce materials and to utilise to the fullest its own material resources under the land, on the land and in the air before making them available to other nations.

The Conference, therefore, urges upon the Government of India the adoption of the necessary measures to ensure that the view-point of Indian industries is emphasised during the negotiations, the adequate safeguards are provided in the Charter against a possible threat to Indian economy, and that the Indian delegation to the sessions of the Preparatory Committee and of the future International Conference is given a clear directive by Government to press for modifications in the principles and objectives of the proposed International Trade Organization on the lines indicated above.

The Conference further urges that adequate representation on the Executive Board and the Secretariat of the proposed International Trade Organization should be given to under-developed countries and particularly to India in view of her large share in the International Trade and the prominent position she occupies in Asia.

Question 99.—Please see replies to questions 91 and 93. The General Agreement incorporates most of the commercial rules laid down in the Havana Charter and hence the objections raised by the Committee against the similar provisions of the Charter hold good in this case too.

Question 100.—(a) On page 12 of the Memorandum of the General Agreement on Tariffs and Trade, the following table is given showing the distribution of the total value of imports affected by the concessions between different classes of imports, on the basis of 1938-39 figures.

	(Rs. in lakhs)
1. Food Items	93
2. Chemicals, drugs and medicines	1,84
3. Other materials of industrial use	5,42
4. Machinery and equipment	2,27
5. Consumer goods	3,74
Total ...	14,20

In the opinion of the Working Committee, more concessions could have been granted in respect of items 3 and 4 and less on other items particularly 1 and 5.

The Committee are not able to appreciate the statement on page 13 that concessions on food items are obviously desirable in view of the present food situation in the country. The great majority of the people of India cannot be said to be consuming most of these items which belong to the category of imported provisions. If the aim of Government is to make the people get 'can conscious', efforts should be made first to change the tastes of the people before encouraging such imports of canned fruits, soups etc. from abroad. Besides, the development of an indigenous food industry is as essential as setting up ammunition works viewed from the point of the national security of the country. There is an annual drain on our foreign exchange resources to the extent of Rs. 130 crores by imports of cereals and other food items. The whole future economy of the country depends on the solution of the food problem and the Government themselves have declared now that they intend stopping food imports completely by 1951.

Item 5 is one in which liberal concessions should not be given; particularly in the case of non-essential articles. It is necessary to raise import duties on most of them to control their imports as well as to improve the balance of payments position. Hence in the opinion of the Committee there should be only minimum number of commitments either for reduction or for maintenance at existing levels of the duties on such commodities.

As regards item 2, the Committee want to point out that India has made substantial progress and every effort should be made to help her become as self-sufficient as possible. National security interests demand this.

(b) In para. 1, page 6 of the Memorandum it is said that 'Many' of the countries with which negotiations took place at Geneva were dependent on imports of the kind of primary commodities of which India is a large supplier and it was to their own interests not to burden imports of such commodities with heavy duties. It was considered unnecessary, therefore, to ask directly for concessions in respect of such commodities from these countries, and to pay for these concessions. The Working Committee are of the view that this statement is not quite in unison with the first line of para. 18 which reads: "The following are the principal items of export trade on which direct concession have been secured: Jute and jute manufactures, cotton manufactures, cashewnuts, mica, shellac, coir mats and matting, sports goods, carpets, spices and condiments, essential oils and tea". India has a monopoly in most of these goods and it is not clear to the Committee why concessions were asked by Government mainly on them.

In the case of primary goods such as mica and shellac the foreign manufacturer would certainly like to get them cheaper from a monopoly country which would enable him to make his finished articles at a cheaper price and dump the same on the very country of origin of the primary products. Naturally this would discourage the setting up of indigenous industries for converting into finished goods the raw products in which we hold a monopoly.

It may be pertinent to point out in this connection that the concessions received for our manufactured goods are not impressive. On the basis of figures for 1938-39, the value of trade covered by concessions on manufactured commodities amounts to Rs. 784 lacs (or 27.4 per cent. of the total) while that covered by concessions on primary commodities to Rs. 2,077 lacs (or 27.6 per cent. of the total). A reorientation of approach is necessary in view of the present urgent need for expansion of export trade in processed materials and manufactured goods.

If sufficient research in India and propaganda abroad are made as to the various uses of our products we can keep our markets expanding and be free from the fear of substitutes springing up in other countries. It is this fear which prompts us to ask for concessions even where we hold virtual monopolies such as in jute manufacturers, mica, shellac, tea and cashewnuts.

Question 101.—It is too early to express any opinion on this question as the time lag since the Agreement came into force is very short. Very little information is available on the subject, but it can be safely stated that even if the Agreement seemed to be on India's advantage at the time it was arrived at, its continuation without any variation under the present altered circumstances will not be advantageous to us.

Questions 102 & 103.—Please see reply to question 101.

Question 104.—It is not clear what it exactly meant by 'other things being equal'. If it is expected that the same conditions would prevail which existed when the agreements were made, it has to be pointed out that it is looking at things in the abstract. Some conditions seldom, if ever, prevail, more so in respect of countries walking away from the 'road to serfdom'. Moreover the partition of the country has had its repercussions on the foreign trade of the country. India is no more an exporter of raw jute and cotton but a net importer of them on a large scale. The areas where carpet and sports goods industries were mainly located have gone to Pakistan. India is no more in a position to enjoy the concessions in respect of these goods. In view of the altered conditions the Working Committee stress that the Agreement will have to be altered.

Indian National Steamship Owners' Association, Bombay.

PART I.

Introduction.

Every industrialised and trading country, which has a considerable coastline of its own, has recognised from time immemorial the importance of the shipping and shipbuilding industries in developing its national economy. Not only do these industries, developed to their full potential, help to facilitate the international division of labour; they also provide a second line of national defence, which guarantees the security, integrity and independence of the nation. Foreign sea-borne trade is becoming more and more a dominant factor in the economic life and growth of every modern industrialised community. Nations get inter-linked daily more and more with one another; and consequently become interdependent as well. For the more each produces itself the more it needs the wares of another; and so requires all round trade which emphasizes the need for an adequate, efficient, economic transport service which a nationally owned shipping provides. And the basic industry of shipbuilding becomes important in proportion.

In modern times, again, more than ever before, no country can defend its coasts, or retain its overseas trade, which has no navy of its own. And no navy can exist where there is not a good shipbuilding industry within the country to supply all kinds of auxiliary craft for the carriage of troops and stores, to provide hospital or ambulance services, to mine-sweeping, food-carrying, coast-guarding, and a hundred other such functions. No shipbuilding industry of the modern type can flourish only on the specialised building of naval vessels. There must be a large, efficient, adequate, merchant shipping of the country's own to provide occupation for the labour, capital and technical skill, knowledge and experience needed for this enterprise.

Transport—an Industry.

It must be, at the very outset, noted that Transport is not by itself productive of new wealth. It is only an adjunct or contributory in the process of production. It does not create new material wealth so as to add to the volume of the National Dividend. But it adds to the time and place value of the material wealth produced; and by the employment it offers to considerable

number of workers, both skilled and unskilled, it helps to improve the standard of living, or the means of satisfying human wants. It is fully entitled to be called an Industry in the best sense of that term.

Being a contributory factor, it increases the place value of the produce raised, facilitates division of labour and thereby gives an impetus to the increase of production, both quantitatively and qualitatively. If transport is unavailable or rudimentary, the producer will have to depend for the satisfaction of all his needs more or less on his own efforts. His labour or energy will be diffused over a number of facts, instead of being concentrated on one or a few items in which he may have special advantage. The aggregate result will be much smaller in value than if he had specialised.

This is the foundation of the economic phenomenon called Division of Labour which is recognised as adding materially to the volume and variety of production. A good, efficient and economic Transport Service promotes the division of labour in space as between regions or countries. The old time economic system was necessarily based upon the ideal of local or village self-sufficiency, just because large-scale and rapid transport of the present day was unavailable. Production was almost entirely for use, and very little for exchange. Transport being limited either to human or animal energy, it was necessarily very slow and costly to carry goods from place to place over long distances. The volume as well as the variety of production had needs to be very limited in consequence.

As and when and where natural facilities for movement in bulk, like flowing waters, or the power of the wind for driving ships along the coastal or distance seas were available, they were utilised for effecting transport of goods in large quantity. The volume of wealth exchange was comparatively greater for such areas. Those, therefore, who could command such advantages were encouraged and able to produce more or in greater variety than their own immediate needs required. The surplus or speciality they produced was bartered or exchanged for that portion of their own demand which they could not meet from their own production. Commerce grew out of these conditions of increasingly specialised production and as commerce grew it gave a further stimulus to new production. Transport is thus an important ingredient in the growth and ramifications of modern commerce, both internal and foreign, and, through that, of the entire economic organisation and activity today.

Because Transport makes this very important contribution to the economic system of our age, it has justly come to be regarded as amongst the leading Public Utilities, in which not only the Owner or Operator of the Service is concerned, but also the community as a whole is most deeply concerned, as by it its aggregate economy is profoundly affected.

With the advent of modern mechanised forms of large-scale transport in bulk the possibility of one man or a few associates providing the entire service in all its forms by land or water or air, with all its equipment of vehicles, permanent way, traction power, and all the accessories of stations, sheds, hotels, refreshment rooms, ferries, etc., became almost impossible. The association of a large number of persons providing the necessary capital by shares in a joint stock concern is almost coeval, in point of time, with the advent of railway transportation, and steam navigation on rivers, canals and along coasts in such countries as France, Germany, United States or Britain. There, before the coming of the Railway, they had made very extensive use of these natural highways, the rivers, the net work of canals built around them and the seas along their coasts or separating Continents. But even with the introduction of these more economical, more rapid and much more centralised means of transport, the waste involved in un-co-ordinated overlapping service remained. A new, complex and formidable problem was created for those countries like ours, which being behind in the modern industrial race, had many of their essential industries, utilities or services developed for them by foreigners working entirely for profit to themselves. When the consciousness grew in such people of this invisible form of drain from their country, they sought to plug in every drain pipe. We shall review below the devices employed to prevent such drain, by each country to develop its own essential industries, services and

utilities. Where the problem was still further complicated, as in India, by politics influencing economic factors, the problem was all the more difficult, if not insoluble. A review is accordingly given later on of the peculiar disabilities or handicaps of the Indian Transport Enterprise with special reference to coastal and overseas carrying trade in goods as well as passengers.

All kinds of goods and all classes of passengers were sought to be carried by railways competing among themselves, by road and river and medley of rates was charged for the same. Competition in rates as well as in service amenities or comfort provided by these grew. The distribution of all available traffic or allocation of appropriate lines to the most suitable form of the service to the particular business, was not even thought of. Those who had the governance of the countries concerned in their hands professed to believe that the best interests of the community, collectively, or of the national economy, would be served only by allowing free competition amongst all carriers, national and foreign. Accordingly, they regarded any interference in the business of the carrier to be an unwarranted, unnecessary and uneconomical use of Governmental authority.

Economics of Water Transport.

Water transport is, and has always been an important adjunct of India's national economy from time immemorial. Bulk carriage is unquestionably easier by water than by road. Wherever therefore produce was abundant, and trade between distant parts flourished on a large-scale; wherever considerable distances had to be covered by heavy load, water transport was naturally more economical, and therefore, preferred. In India, with a long coastline of over 3,000 miles, and with her principal rivers flowing through hundreds of miles all the year round, with imperceptible gradients in fertile regions and flourishing industry; and with a very considerable trade with all the neighbouring continents, water transport had developed and was utilised on a large-scale from days before recorded history.

The economics of Water Transport, both inland and across oceans, or along coasts, are too obvious to need detailed enumeration or specific analysis. Land transport by road is said to be relatively cheaper than Railways because the permanent way is much less costly than the corresponding item in rail transport. Whatever the cost, the road transport has not to bear it, since the road is provided and maintained at public expense. Reasons of national economy as well as strategy for defence have made this system universal and unexceptional. In the case of water transport, the permanent way is free of cost to anybody except in the case of rivers canalised for navigation where there is considerable initial cost to reckon with. Water, otherwise, is a gift of nature which needs very little outlay, comparatively speaking, to be made serviceable for this vital ingredient in national development.

Ports and Harbours are also, primarily, gifts of nature. Their improvement, expansion and adaptation to modern conditions involve, however, considerable investment of capital, which is reimbursed by levying Port Dues in a variety of ways. If and where material capital or human labour is invested in their development, making them more serviceable under changing conditions that outlay is comparatively very small in view of the growing volume and value of modern sea-borne commerce. These arrangements, moreover, are made by the State or some public authority under it; so that the initial cost does not fall on the carrier entering or leaving a port. Port dues are, indeed, not extinct like road tolls; thanks, however, to internal competition among ports in the same country, the incidence of this burden is relatively light.

Natural advantages for inland water transport in India are even greater than might appear at first sight. Our rivers are, however they exist, perennial, not periodically frozen, like the Volga or the Vistula, the Danube or the Don. They require no costly icebreaking, mud-dredging, or fog-clearing equipment, to make them serviceable in certain months of the year. They flow through plains, needing very little of lifting equipment for traffic, like locks on rivers meandering through uneven country. Locks would add, no doubt, to their accessibility and use in certain areas; but broadly speaking, they are not needed in most of the Indian rivers wherever they are navigable.

Addition of arterial canals would improve the linear extent of the service. But, hitherto,—and particularly under the British regime,—Canals have been dug almost entirely for irrigation, wherein navigation found no place. Such of the great canals on the principal rivers of India, which are wide and deep and perennial enough to offer navigational facilities, have been constructed not primarily for navigation. Their lay-out, dimensions and use are consequently governed by considerations other than commercial. The Indus was navigable for a thousand miles from its mouth before the Sukkur Barrage barred through carriage at Sukkur. It adds materially to the cost of transhipment on Indus in that Province, as compared to the parallel service of the railway. The Ganges admits boats of a thousand tons up to Allahabad. Calcutta is only a river port, a hundred miles from the mouth of the Hooghly. But the landing and loading facilities at several convenient points along the Ganges leave much room for improvement if the transport service along this grand highway of commerce is to be properly developed. Even, if all these facilities were developed to their maximum, the capital cost for making this form of transport as efficient as it well might be, might be comparatively small.

The cost of the vehicle, likewise, for water transport is, in proportion to the cargo or passengers carried per unit, comparatively small. The old time sailing vessel was built for what we would now regard as small-scale business, though even that was large-scale, when compared to carriage by human porters or pack animals. Ships for deep rivers or ocean transport are now built in large unit sizes and are very costly. But in proportion to the quantity or numbers carried, the cost is small. Initial capital outlay, therefore, for this form of transport service is, compared to others, economic. Its only disadvantage is that it is fixed by Nature along given lines, and can be used only where the natural gift is in existence. Human ingenuity and effort can, no doubt, make canals, and join rivers as well as oceans, *e.g.*, by the Suez or the Panama Canals. But the scope for these is limited by the geography and available quantity of water in a river. If we desire to utilise this natural gift of the country to the fullest, we must devise all such expedients as would widen the use of this cheap means of bulk transport, both internal and overseas, in the assurance that with all these outlays, the capital cost, mile for mile, and maund for maund of carriage, will be much smaller than on any alternative form of transport.

Whatever its potentialities, in India the Inland Water Transport had no fair trial, once the railway had come and begun competing with the natural facility of the river transport. The Railway is said, even in Britain, to have killed the canal; and we in India had perforce to follow the British model. In other European and American countries, however, even today the essential economy and advantages of inland water transport, carefully developed and scientifically interlinked by a network of canals, are by no means neglected. The Atlantic has been connected by canals in France with the Mediterranean, the Mediterranean with the Red Sea by the Suez Canal, and the North Sea is linked with the Black Sea by similar developments on the Rhine and the Danube and the yet more ambitious developments or projects of Soviet planners.

The great arterial rivers of Northern and Eastern India offer easy and immense possibilities of development in this direction. The Ganga with all her tributaries like the Jumna, Gomti, Gamdalk, Gogra, Sone, etc., will easily provide a very economic grid system of water transport for the greater part of Northern India. It can be supplemented by a similar network on the Meghna and the Brahmaputra and lesser rivers of Bengal and Bihar, Orissa and Assam. Similarly, the Mahanadi and the Godavari, the Krishna and the Cauvery, not to speak of the Narbada, the Tapti and the Sabarmati on the West, have been neglected, their waterways silted up and blocked, their ports made unsailable, the mud and silt only cleared by the annual floods that do double damage in clearing away millions of tons of very valuable soil. The possibility of their being linked up with such rivers as the Sutlej or the Chambal is a problem in engineering which has been solved in other countries less happily situated than ours; and there is no reason why we cannot solve it here.

But the narrowly conceived operation of the railway transport authorities until today, because of the capital commitment of Government in that service, has skilled these possibilities, which can only be revived if the National Planning Authority, when appointed, realises the true role and ultimate possibilities of this great endowment by Nature of our country. Besides the free roadway provided by nature, the initial cost per unit of carrier on inland water is much smaller in initial equipment than on any other form of transportation. The wooden bulks of old time could be easily built, and were built, out of the native forest, incidentally providing employment for a wider range of skilled artisans and unskilled labour. The provision of these ships with all the equipment of sails and cordage anchors and cables, oars and masts, also came from indigenous sources which thus advantaged the local economy in proportion. There was no need to pay a tribute to the foreign shipbuilders or boiler makers, as we have to do today, because the industrial background is not so highly developed as is necessary for an economic shipbuilding enterprise of the modern kind within the country itself.

Again the sailing vessel had no cost on account of motive power which in a steamship is a heavy item, whether coal or oil; for the winds of nature, the tides of the sea or the current of the river carried the cargo and the passenger laden vessel. It made water carriage in heavy loads comparatively very easy and water therefore, served as the principal means of transport wherever these facilities of nature were available.

These are, however, no longer the normal conditions in shipping. Steam power has taken the place of wind driven sailing vessel. And though the maintenance cost of a modern steamship is greater than that of the windjammer, the increasing substitution of oil for coal leaves a much larger space for payload, as they call it in America. It makes considerable saving in labour cost too. Wage bill, ashore and afloat, has arisen; but even so, given the much greater unit cargo than can be carried by water, the cost of maintenance and working may be deemed proportionately much less by water than by land in every form of transport. The economic and profitable management of shipping enterprise thus becomes a matter only of securing adequate cargo or passengers.

The losses in shipping and risks of water carriage, common in the early days of long distance international shipping, are no longer worth reckoning on the debit side of the account. If such risks still continue, there are effective means of guarding or insuring against them. Erection and maintenance of lighthouses and life-boats, buoying of channels, and provision of suitable dock facilities or loading and unloading equipment are all liabilities of the State, which a modern country has to maintain for its own reasons. Sea transport today is much safer from the point of view of accidents; and speed is no less, nor is regularity of service lacking compared to even mechanised road transport. The terminal costs of ports and storage tend to increase. But even these do not make water transport costlier per unit.

Both inland and overseas water transport have thus possibilities which need to be carefully investigated. They must at the same time be co-ordinated with other available forms of transport to make a really complete, composite, adequate and effective as well as economic service. Under modern conditions, and with the latest developments in shipbuilding, both naval and commercial, India may appear to suffer from certain initial handicaps. But these are not difficult to remove. In the olden days, the primary material of ships and their equipment for service was all available within the country. Barring iron and steel in limited quantities, all items of equipment needed for the construction of modern ships, such as the engine and the boiler as well as the mechanical and electrical equipments which serve these vessels, have all to be imported from abroad. Shipbuilding once a far-famed and flourishing industry of this country, has to be replanted in the land by artificial methods, if need be. We have equal possibilities of developing an iron and steel industry, already founded on a modern scale, which may easily provide all these basic materials. And the production of engines and parts, equipment, apparatus, or instruments

is likewise an item in all-round planning which cannot be ignored when the organised, purposeful, co-ordinated expansion of the country comes to be achieved.

The extent of ships and shipping business needed by India for her inland waterways, for her coastal service, and for her overseas trade is impossible to state with any degree of accuracy. The Shipping Policy Committee of 1945 estimated that two million tons of shipping would serve our present needs in the coastal and overseas trades, and their probable expansion in the next few years. Against this we have got barely 327,000 tons. Though, as already remarked, the advent of the railway and its competition has strangled the inland water carriage of goods or passengers, there is still enough evidence, under present conditions, of that ancient means of transport and communication having still its utility. It needs but a small dose of public support and encouragement; it requires but a modest co-ordination of all available traffic of an expanding economy, to resuscitate and reinforce this cheap, efficient, widely prevalent service. The little attention that is necessary for erecting or maintaining adequate dockside and wharfage facilities with modern mechanised equipment for loading and unloading, stowing and discharging cargo, would improve the innumerable inland ports of India, which once did a large volume of through trade to overseas countries, and which still have potentialities of resurrection to a considerable extent.

The coastline of India stretches, even after Partition, to over 3,000 miles. The ports and harbours which once marked this long line, have been stifled or rendered useless, mainly by the competition of 'block rates' on the railways and partly also by the exigencies of a foreign power ruling in the land for its own aggrandisement. In the Vijayanagar Empire of five hundred years ago, when it covered the whole of South India, there are reported to have been 84 principal ports, which today are hardly even names. Their sites are marked by silt and mud, their memory maintained by a few straggling fishing crafts lurking in their coves; their potential marks unknown except to the antiquary or the enthusiast for local development against excessive centralisation, or concentration of the country's economic energy, resources and outlet in a very few principal ports.

Against the numerous ports or roadsteads which flourished a hundred years ago on the coasts of India, there are now six ports only which do more than 90 per cent. of the country's shipping business. Two of these between them take two-thirds of the total business available. There should be a more even distribution of business among the ports in an era of planned development. As the following statistics will show, the shipping that entered and cleared with cargo has passed the ten million ton mark in the Indian ports; while the adjoining maritime states, which had all through our long stories past also developed an extensive sea-borne trade, must account for a similar proportion.

Statement showing the number and tonnage of steam vessels which entered and cleared with cargoes in the foreign trade of India at ports in India during the fiscal years 1938-39 *and* 1948-49.

	1938-39						1948-49					
	ENTERED			CLEARED			ENTERED			CLEARED		
	No. of vessels	G. R. T.	% to Total	No. of vessels	G. R. T.	% to Total	No. of vessels	G. R. T.	% to Total	No. of vessels	G. R. T.	% to Total
British	2,024	6,374,352	68	2,093	6,552,994	68·4	1,346	5,143,941	63·73	1,149	4,253,281	64
(Br.) Indian	111	291,441	3·1	107	273,345	2·8	315	176,703	2·2	369	200,795	3
Danish	9	28,833	·3	6	17,217	·2	..	..	..	..	..	..
Dutch	55	228,345	2·4	40	152,675	1·6	..	..	..	..	..	..
French	24	166,681	1·8	24	1,66,681	1·7	2	6,032	·07	3	13,134	·2
German	96	437,144	4·7	112	511,929	5·3	..	..	..	..	..	..
Greek	13	40,064	·4	26	78,783	·92	..	..	..	..	..	..
Italian	135	785,508	8·4	144	717,107	7·5	52	169,976	2·1	36	103,796	1·6
Norwegian	73	247,936	2·6	69	192,795	2·02	..	..	..	..	..	..
Swedish	14	46,801	·5	30	98,645	1·03	..	..	..	..	..	..
Japanese	142	569,137	6·05	155	631,019	6·6	..	..	..	2	9,978	·1
American	33	147,623	1·6	32	143,465	1·5	160	732,224	9·1	142	6,99,698	10·5
Yugoslavian	..	..	..	2	5,998	·07	..	..	..	..	..	..
Roumanian	..	..	..	1	2,673	·03	..	..	..	..	..	..
Belgian	..	..	..	1	3,088	·03	..	..	..	..	..	..
Egyptian	..	..	..	2	6,221	·08	..	..	..	..	..	..
Finish	2	7,054	·05	1	3,775	·05	..	..	..	..	..	..
Panamian	3	10,674	·1	6	15,210	·71	..	..	..	..	..	..
Other Countries	..	..	..	..	..	..	491	1,827,215	22·8	389	1,367,917	20·7
Total	2,734	9,381,593	100	2,851	9,573,620	100	2,366	8,056,091	100	2,090	6,648,599	100

Source : Accounts relating to the Sea-borne Trade and Navigation of India for the relative years.

* Under this head are presumably included the countries for which separate figures are not given above for 1948-1949.

National Factor in Transport.

The problem of transport economics is particularly complicated especially in respect of the more modern forms of Air and Water services by the admixture with national considerations, affecting national independence, integrity and security which no country can afford to overlook. An adequate air fleet and an equally sufficient mercantile marine play a very important part, nowadays, not only as auxiliaries to the fighting services proper, in air as well as on water; they help even more considerably in keeping open communications and providing supplies.

Because of the universal recognition and increasing significance of this rule in modern systems of national defence, the State must do everything in its power to encourage and maintain these services, as well as their basic industries for manufacturing the vehicles. their parts and accessories, their armament and equipment, to see that the country is not left stranded in the hour of its need. Subsidies and bounties are granted by every modern community, which is anxious to preserve its national independence and integrity, for building and operating ships of all kinds and aircraft of every description to ensure a ready and easily accessible means for running auxiliary services and doing other duties assigned to such categories in times of war.

The rationale of such special advantages to these services and industries is not far to seek. In times of peace, they may not find sufficiently remunerative employment, because of their initially high cost of present-day construction, equipment, maintenance and operation, to make it worth while for ordinary unaided private enterprise to keep up such services on a strictly competitive basis. Nor can it provide all the equipment needed to operate them regularly and efficiently on an exclusively commercial footing. To avoid this danger of likely indifference to such services and their basic industries in normal times. the State must provide all the necessary stimulus to such industries being started and services being run. It must give them all possible support to ensure their maintenance in effective trim so as to be capable of rendering the much needed vital service long before the hour of danger actually strikes.

The presence of such subsidies and bounties, concessions and assistance, in a wide variety of forms and degrees, makes it impossible to consider the economics of these industries and services on a purely objective basis. Economics and politics always affect one another; and they are indissolubly interlinked in the case of countries like ours which, for extraneous reasons, have been enable to develop to the necessary degree these industries and services,—owned. manned and controlled by their nationals,—and find themselves at a very heavy disadvantage, when they attain their independence and have to shoulder the responsibility for their own national defence and to maintain or uphold their national dignity in international relations. We, in this country, are confronted, in this sphere, not only with the problem of filling up a lacuna in a vital spot; but also of overcoming, counteracting or neutralising the might of the alien vested interests which had so long denied us an adequate mercantile marine of our own. The following pages present a review of these factors as applied to India, as well as the change in the economic background of the country during the last quarter of a century, which will explain the peculiar position of this country and the reaction on its national economy of the absence or under-development of such industries and services.

PART II

Changes in the economic background since 1922

A radical change has taken place in the economic situation and background of this country since the Indian Fiscal Commission reported in 1922, and the basic fiscal policy was laid down in 1923 in accordance with a resolution passed by the Indian Legislative Assembly in that year.

Not all these changes, however, may be credited to the policy of 'Discriminating Protection' to selected Indian industries, begun in 1923. The logic of many events, and the force of many circumstances beyond the control of the Indian Government of that period, have resulted in these changes and developments, in which the half-hearted policy of Fiscal Protection, or Government assistance to industries, played but a minor role. Industries selected for protection or assistance were selected not so much with a view to their essential importance in nation building or intensive Industrialisation of the country, or their vital necessity in our National Economy, as in accordance with certain predetermined conditions of economic advantage and promise of self-sufficiency, in course of time. This did not always, or primarily consider the real, long range needs of the country calculated to exploit and develop its resources and potentialities to the utmost degree as will be seen from the history and vicissitudes of the Shipping and Shipbuilding Industries in this country.

The most outstanding changes that have taken place since are political rather than economic, though they vitally affect and condition the economic situation, background and prospects. We consider below some of the most important of these.

(a) There is an aspect of World War II which needs stressing so far as the Shipping Industry is concerned. As is well known, during World War I, there were no effective controls on shipping, with the results that the industry was able to amass large reserves which later proved useful for replacement of ships. These conditions changed with World War II. With a knowledge of what had happened previously and with a feeling that against joint enemies an all-out effort was required irrespective of its effect on post-war economy of the allied countries, the rates for requisitioned tonnage were kept so low by the allied Governments that not merely did the shipowners have no adequate reserves for replacement, but they have not been able to have a post-war position at all comparable to that of the end of the World War I.

(b) Though not directly connected with our national economy, World War II, while it lasted, made a very considerable change in this country's economic position, and has left its legacy behind in a variety of shapes which also materially affect the country's economy. The practical closing of India's usual source of supplies for capital as well as consumer goods needed in Peace and War, and the increasing shortage of shipping space for such commodities as were available, compelled the then Government of India, negatively, to adopt a series of measures for the control and restriction of consumption, and positively, for the development of production within the country. Their aim was to meet the intensively expanding war needs and to supply normal peacetime requirements of the country after the War had ended. In the case of those industries which were thus forced into intensive development to meet war requirements, but which had no reasonable prospect of withstanding world competition once the War had ended, Government had promised assistance or protection if those industries of wartime creation or expansion had reasonable prospect of continuing. With the aid of such protection or assistance against such post-war competition as might develop under normal conditions of competitive commerce, many of these industries have continued in existence. They have applied to the Tariff Board, appointed in 1945-46 and reconstituted in 1947 with amplified terms of reference, which has recommended several industries for special assistance or protection. The reaction of that policy, even though it was an *ad hoc* or short term system, cannot but affect the present situation and background very materially. Both the preceding factors and the effect of the

policy of Fiscal Protection and assistance to industry, which had been pursued, however half-heartedly, in the 25 years preceding the Partition, resulted in the development of certain industries, which without such protection, would not have developed at all, or not developed to the optimum degree.

(c) The Partition of the country has also affected radically the economic background, the conditions in respect of production of primary as well as secondary commodities, its distribution within the country, and our trade both at home and overseas.

The Partition has, in the first place, resulted in removing from the authority and jurisdiction of the Government of undivided India large tracts of territory which used to be productive of raw materials and foodstuffs, much in excess of the requirements of the population of those areas. In both essential requirements, therefore, the Dominion of India has become dependent for a sizable share of its own requirements, upon imports from abroad. In the alternative, she is obliged to reduce her own consumption, or exports of such foodstuffs or raw materials which were formerly in excess compared to her own consuming or manufacturing needs. Figures are appended [See Appendix VI (a) and (b)] to show in what respects this has affected the industrial and trade position of the country, and of all those which minister to the general economic development of the country, such, for instance as the Transport Service.

Fiscal Commission Report of 1922 *with regard to Shipping.*

The Fiscal Commission of 1921-22 does not appear to have examined the case of the Indian Shipping and Shipbuilding Industries. The only pregnant reference to Shipping occurs in paragraph No. 131 of their Report which we reproduce below :—

Para. 131.—*Lowering of Coastal Shipping Rates.*—Somewhat parallel to the complaints about railway rates are the complaints which we have received about coastal shipping rates. The causes are different, but the results are stated to be the same, namely, that Indian goods are handicapped in transmission in comparison with goods from foreign countries. Rates have been quoted to us showing a great disparity between the charges on goods conveyed between Indian and foreign countries. Such disparities more than neutralise the natural protection which an industry might expect to receive in its own country by reason of the distance of foreign manufacturing centres. The cause of the high rates in the Indian coastal trade, can according to their critics, be summed up in the one world, 'monopoly'. It is suggested that the existing monopoly can best be met by the development of an Indian mercantile marine. As, in connection with the resolution moved by Sir Sivaswami Ayyar in the Legislative Assembly on the 12th January, 1922, the Government of India have accepted the necessity of a thorough enquiry into the measures needed for the encouragement of an Indian mercantile marine, it is unnecessary for us to do more than express our belief that a successful issue to this policy should have a favourable effect on coastal freight rates and assist industrial development.

In response to the Resolution moved by Sir P. S. Sivaswamy Aiyar, and endorsed by the Fiscal Commission's Report, the Government of India appointed in 1923 the Indian Mercantile Marine Committee—the first landmark in the history of Indian Shipping after World War I. The circumstances leading up to its constitution, its terms of reference and its recommendations are given below.

Recommendations of Indian Mercantile Marine Committee.

The Mercantile Marine Committee appointed in 1922-23 was expressly appointed to consider ways and means of building up a suitable mercantile marine for India. This Committee considered the various obstacles in the way of the development of Indian enterprise in this field and also examined the several alternatives to get over this difficulty, *e.g.*, buying out the rival interests completely. It made recommendations, summarised below, for solving the

problems, including a suggestion for starting shipbuilding yards within the country itself by State help, and buying in the meantime, the necessary ships, which would be owned and worked by Indians.

The Indian Mercantile Marine Committee 1923-24 was appointed to consider what measures could usefully be taken :—

(1) for the liberal recruitment of Indians as Deck or Executive Officers and Engineers in the Royal Indian Marine;

(2) For the establishment of a Nautical College in Indian waters for the purpose of training Executive Officers and Engineers of ships;

(3) For ensuring the entertainment of Indian apprentices for training as such Officers and Engineers in the ships owned by shipping firms that enjoy any subsidy or other benefits from Government on any account and for the creation of an adequate number of State scholarships for providing instructions in the Nautical Colleges and Training ships in England pending the formation of a Nautical College in India;

(4) For the encouragement of shipbuilding and of the growth of an Indian Mercantile Marine by a system of bounties, subsidies, and such other measures as have been adopted in Japan;

(5) For the acquisition of training ships by gift from the Imperial Government or otherwise; and

(6) For the construction of the necessary dockyards and engineering workshops in one or more ports.

They recommend :—

I. *Reservation of coasting trade* by a system of Licences issued on the following conditions :—

(1) To no foreign ship except in so far as protected by treaty rights.

(2) To any ship flying the British flag, provided that—

(a) It has been regularly engaged on the coasting trade during the preceding 12 months and is not more than 25 years old;

(b) The owner undertakes to take Indian apprentices and Indian executive Engineer Officers, on prescribed scales;

(c) The license shall continue only until the ship has reached the age of 25 years.

(3) Any ship hereafter seeking to enter the coasting trade shall comply with the following conditions :—

(a) The ownership and controlling interests shall be predominantly Indian, *viz.,*

(i) Registered in India;

(ii) Owned and managed by an Individual Indian or by a Company registered in India with rupee Capital, with a majority of Indians on its Directorate and a majority of its shares held by Indians;

(iii) Some undertaking regarding Indian apprentices and Officers as in condition (2b) above.

(4) The licensing authority to have discretion to waive all or any of the condition during period of stress and to issue permits to any ship flying the British flag.

(5) The licensing authority to have power to take such steps with the approval of the Government of India, as may be considered advisable to deal with deferred rebates, rate wars, or any other conditions which act unduly as a restraint on trade.

II. *Purchase by Government of one of the existing British Lines* operating on the coast, and eventual transfer by sale to approved Indian owners.

It is anticipated that purchase will be facilitated by the restrictions imposed on the coasting trade by the licensing system.

III. *Bounties* and other forms of State aid are not now recommended. But bounties may be considered subsequently for purely Indian shipping companies engaged in overseas trades.

IV. *Mail Subsidies* : As a general principle, the most economical tender, having regard to regularity and speed, should be accepted. But if the licensing system is not adopted, mail contracts in which the whole subsidy is paid by India should include a stipulation to take Indian apprentices on the scale recommended for the licensing system *or*

Indian owned and Indian managed ships would be assisted by

(1) bounties;

(2) mail contracts;

(3) carriage of Government stores whether in the coasting or in overseas trade.

Government action on these recommendations.

These recommendations, however, remained in the pigeon-holes of the Secretariat. No action was taken on any of them, except on that in regard to training establishment for deck Officers and Engine room staff. The Training ship "Dufferin" was assigned and reconditioned for the purpose. The practical experience, however, which personnel thus trained would require before becoming full-fledged Officers could only be got on the British ships playing on the Indian coasts. But this the British shipowners refused to afford.

The same attitude was adopted in respect of the Wireless Operators on board ships, who might receive any of the best theoretical training in their schools and colleges but who would not be entitled to serve as such personnel unless they would produce certificates of a given period's experience on board a ship. The Bengal Pilot Service of the day followed the same policy of excluding and keeping out qualified Indians.

The suggestions that Indian enterprise should buy from the existing British interests a part of the shipping they owned to enable the Indian enterprise to take their fair share was also considered. But the British owners demanded terms and conditions which would have made economic operation of the shipping thus obtained impossible. This would be all the more so if there were no method of reserving any portion of the carrying trade for Indian owned vessels, whether on the coasts of the country or on the high seas.

Not the least of the handicaps for the Indian enterprise lay in the absence of sufficient trained technical personnel, both for serving as deck officers and commercial agents, as also for the engine room, and the wireless cabin and other technical services. Even if they built, bought, or chartered ships, they had not the staff to work them. The Mercantile Marine Committee had recommended that a training school for Deck and Engine-room staff be started at once to overcome this handicap. The first fruit of this recommendation was the establishment of the Training ship "Dufferin" to train a suitable number every year, of Indian cadets for taking their place as Officers in the Country's mercantile marine. India has no lack of sea-faring population, accustomed from time immemorial in their relatively small wind-driven vessels, to trade across the Arabian Sea, the Indian Ocean and venture even farther afield in the Pacific. But while Indian seamen continued in increasing numbers to man the British-owned larger, modern ships doing business along the coasts and across the seas as lascars, the officer class of the sailing ships, with technical knowledge and responsibility in navigation, was gradually weeded out of existence, owing to the replacement of sail by steam and the indifference of the Government of

India and the British shipping companies to the interests of the Indian sea-faring classes; and his place was taken by the corresponding British personnel on British vessels. Unless the superior personnel for running and navigating ships, safely, economically and efficiently, were available from the children of the soil, the mere owning of a fleet, however large, would not suffice to meet the country's needs in connection with a national mercantile marine.

The cadet ship "Dufferin" soon proved popular; but the men turned out by the specialised institution as and when they came out, had to be employed: the only considerable source of such employment was in the British-owned vessels; and those owners refused to consider Indian qualified candidates for their service. It was a legitimate demand that those who took such a large share in the country's coastal and overseas carrying trade, its mails, stores and troops carriage on Government account should give preference to trained and qualified Indian personnel on their ships as they became available. Nevertheless they refused to co-operate and persisted in doing so. The Indian enterprise welcomed such Indian talent newly trained, but its capacity to offer employment was limited, though the terms on which it was offered were by no means uncomparable.

This serious handicap, however, has not yet been fully obviated, even after the establishment of the Training ship for deck officers. A school for Marine Engineering has also made its appearance. Facilities were also attempted to be secured for Indian aspirants for a more specialised training in the more advanced shipbuilding countries during the last war; but not with any striking success.

A beginning has at last been made for a large-scale shipbuilding industry of the modern type within the country itself. The Indian concerns mentioned above, when it started business had ships built in Britain for the various lines it entered, including the pilgrim service to Hedjaz. The moment, however, it entered any new trade, it was faced with the most determined competition, and the threat of a Rate War. It bought more ships, and chartered others. But still it could not cope with all the trade that came to it in spite of British obstruction. They had, therefore, to insist, time and again, upon an adequate modern shipbuilding industry within the country. Despite, however, the serious emergency of the War, the Government of the day failed to realise the gravity of the situation. The demand for technically trained personnel for war-time service, ashore and afloat, led to further depletion of the Indian reserve of such officers. The scarcity in trained personnel, therefore, remains unrelieved, and the growth of the Indian enterprise in the shipping world is inevitably impeded because of this handicap.

Shipping Services and Development during Interwar Period, of (a) Agriculture and (b) Industries

Shipping as an industry and service is closely allied to the production, both agricultural and industrial, of the nation. Unless there is production extra to requirements or there is lack of production there can be no transport. If there be only self-sufficiency and self-sufficiency be the goal of a nation, that nation would not be able to enter the international trade, and in the circumstances there would be no necessity for shipping services either coastal or international. *Before proceeding further it would, therefore, be in the nature of things to examine the agricultural and industrial production of the Union of India.

(a) *Agriculture* :

So far as agriculture is concerned, the loss to the Indian Union of considerable agricultural areas by the partition of the country has necessarily affected the volume of agricultural production in all the principal commodities both of food supplies and raw materials in the country.

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* India has always had a formidable volume of exports and imports and the history of a trade is summarised in the two tables, *vide* Appendices I & II.

The figures in Appendices III and IV indicate the loss of area, and consequent decline in the production, which speak for themselves.

Another factor which may also be noticed as regards agricultural production at the present time is shown by the set of figures in Appendix V which gives the yield per acre of the principal agricultural commodities. In almost every instance, except perhaps sugar and jute, the yield has declined.

The figures are, it is true, not the latest that may be available, but they are sufficiently eloquent as regards the general trend.

This is independent of the Partition, or the legacy of the war. The transfer of power ought to have led to some improvement, rather than worsening of the situation, especially in view of the intense pressure from official and authoritative sources on account of the so-called "Grow More Food Campaign". Under the stress of war-time necessity, Britain attained a 75 per cent. increase in her Agricultural production; but in India the efforts did not show any perceptible improvement because of the war demand, or even after the War.

The projects now in hand of large-scale irrigation works, for utilising the principal rivers and, with the aid of their waters, reclaiming large tracts of land for settlement, are calculated to guarantee adequate and regular supply of water, which is now one of the most severe handicaps of Indian Agriculture. It would also help to reclaim waste land and bringing it under the plough on an equally large-scale. This will add more than proportionately to the yield from land especially if intensive and large-scale cultivation is adopted. Production can also be increased by such aids as artificial fertilizers. All these would go a long way to make up the deficit that has been forced upon India by the partition of the country and loss of the area.

It must be added, however, at the same time, that many of these large-scale River Training and Irrigation multi-purpose projects will take years to complete, in any case not less than a decade. Upon their completion the deficit now noticed may not continue adversely affecting the volume of agricultural production in the country. But if, at the same time, population goes on growing steadily at the rate noticed in the last two or three censuses, the expected consequence of improving and diffusing economic prosperity equally throughout the land by means of trade, both internal and overseas, may not be realised to the same extent. The problem of properly ordering a country's national economy is a most complex and many-sided question, which cannot be solved by tackling or emphasising only one side of the matter. Unless a carefully thought out, mutually co-ordinate and scientifically integrated system is adopted to ensure an all-round ordered growth and development, we would be no nearer a real solution of our multifarious problems of national economy.

If the situation is, therefore, to be remedied radically, a comprehensive policy, not only of agricultural improvement by the measures mentioned above and others of an analogous nature should be adopted to secure the preservation of the soil and its increasing productivity; but also a more economic and efficient organisation of agricultural industry should be given effect to, so as to make the labour and capital engaged therein much more productive per unit than is the case today. The mere increase in the volume or variety of the produce is not enough; we must have its proper distribution so that all classes of the people share equitably in the increase production. And this can only be achieved by providing adequately and simultaneously all the necessary adjuncts, accessories, or incidental services and amenities, like Transport, Finance or Marketing.

The trade in agricultural commodities has radically changed in the last few years. India has become a very large importer of foodstuffs, and even raw materials of industry in place of being exporter of the same as she was accustomed to do at the time the first Fiscal Commission reported.

As regards foodgrains the failure of the Government to utilise the import of same, which amounted to as much as 27 lakhs of tons in the year 1948, to develop national shipping, cannot be denied, as a part of it at least would have provided

adequate cargo for vessels running both ways. A cargo vessel of 8,000 tons doing three round voyages from America to India will carry about 25,000 tons in a year. For the grain trade alone of these dimensions, 100 vessels—about 8,00,000 tons—may be needed.

Of course, to maintain a line, return cargo would be necessary. But at least a certain number of national ships could have been introduced in the trades concerned, as has since been done in the carriage of Australian grain and American locomotives. Even now during the period ahead, arrangements could be made regarding such co-ordination. Hence, in this connection the question of an Indian Shipping Service between India and the South American countries should be considered.

(b) *Industries* :

So far as Industries are concerned, with the changes in the background already mentioned, the pace of industrial progress has necessarily slowed down. The war gave a fillip by the adventitious protection to local industry because of the cutting off of foreign competition, which, however, did not last long after the war and its temporary stimulus had ended. The demand for capital or consumer goods, which had perforce to be kept down while the war lasted, still remains in the background ; and would otherwise maintain Indian Industries at a fairly high level if other factors had not entered to prevent this consummation.

There are several new impediments which obstruct our industrial growth today. Lack of raw materials produced at home in sufficient quantity and quality and the difficulty of obtaining them from foreign sources of such supplies, thanks to the prevailing Exchange shortage, make the continued progress and expansion of India's industry very slow. The shortage, moreover, of foodstuffs, and the hardship that the working population has to bear in consequence, equally affects in the same direction the progress and development of indigenous industry. The resort to black-marketing for procurement of necessary supplies by the working population cannot but react upon their working capacity, their time and energy ; and those inevitably tell upon their output.

The decline or depreciation of the mechanical equipment due to the lack of adequate repair, replacement or renovation during war time of plant, machinery and accessories, and the difficulty of procuring new machinery, tools or equipment owing to reasons noted above, also prejudice in a substantial degree the output from industry and the rate of its development.

The reduction in the market due to the Partition of the country and the loss of the Pakistan market for India's industrial output, also operate in the same direction. The measurement of such factors in concrete terms is difficult ; but their presence and operation cannot be denied.

So far as can be judged at present, these trends are not merely passing factors. They are likely to affect our industrial expansion and development for such time as India makes up, from her own resources, the required quantum and quality of raw materials, and is at the same time able, from a progressive expansion, to meet her own local demand.

In the latter case, it is possible to obtain overseas markets, not only in our immediate neighbouring countries, like Burma, Ceylon or Pakistan which are comparatively backward in modern industry ; but also further afield in the East and in the West, in Indonesia and Arabia, as well as in Thailand and Africa. The need for a mercantile marine to develop such markets cannot be overstressed. In these countries, for years to come the industrial output may be comparatively insufficient for local needs ; and so India's output may find profitable market in these regions. But this development would necessarily take time, as also the first named factor of suitable and sufficient raw material supply at home. The rate of growth and expansion, therefore, upto the point of making up this time lag, must needs be slow ; and the process of making our industries return to their normal level of output and efficiency must be likewise slow.

The need for re-organisation and re-orientation of trade is all the greater for India, as, notwithstanding her size, her population and resources, she is unable, and will remain so for some years to come, to meet even all her own essential requirements. In some industries, however, which she may take steps to develop intensively, she may quite possibly produce more than she can consume herself; and would then be in a position to help supply other markets which at present are inaccessible to her. For carrying this trade, an adequate efficient and economic shipping is necessary. India lacks very badly in this inseparable adjunct of her national economy; and hence the stress laid in these pages on that development.

With regard to the development of our industries, we must not lay any emphasis on the possibility of our working up all available and potential raw material to supply our own market within our own frontiers. Not only may we not be able economically to achieve this objective in every particular, but we must also face the fact of growing modern international dependence and mutual obligations which would be incompatible with such an ideal being rigorously pursued by such a country as ours. The new aim of securing the greatest possible degree of economic co-operation between nations demands that each country should keep its programme of local development within reasonable limits, and without being incompatible with its neighbours and customers. Scientific advancement, new discoveries and new inventions render inherited skill and traditional enterprise in particular fields obsolete. New processes, new machines, new equipment substituting for old methods and devices often render once very profitably enterprises utterly onerous and unremunerative. Even the primary sources of production, namely, agriculture, is nowadays exposed more and more to the threat of substitutes being produced by scientific means. Synthetic rubber for real caoutchouc, oil from coal, beet sugar, rayon silk, and even some new fibre, which would take the place of jute, are actual or potential examples. Industry, moreover tends to be more and more interdependent, so that the finished product of one industry becomes the raw material of another. These necessitates an ever widening division of labour which makes the several countries of the world integral parts of one world economy. The latest example of this kind may be found in the ilmenite sands of Travancore, which, until now, used to be exported in the original condition as raw material for being worked up abroad. By a recent agreement, however, with American industrialists, the ilmenite and other sands are processed here and exported for final utilisation in the paint industry in the United States.

These are two standards of measuring such development, namely :—

(i) The possibility of working up, within the country itself, of all its available and potential produceable raw materials whether sufficient or surplus for own market as regards the commodities manufactured out of such materials. It must be remembered, however, that any such demand is progressively expanding with the growth of Industry and better diffusion of prosperity. Demand cannot, therefore, be taken to be rigid and fixed for all time; nor can supply through industry systematically protected and actively developed always remain static. This objective must, therefore, be construed, even if adopted, as the guiding principle of the National Fiscal Policy and be taken to be elastic in a certain degree.

(ii) Alternatively, the aim of such policy may be the development of industry at least to the point where the entire local demand is satisfied by the home production; making allowance for its progressive expansion, and increasing purchasing power of the consumer. This sounds a more reasonable goal; but even here, there is room for elasticity in interpretation.

It must not be forgotten, however, that besides these two objectives, there is the consideration of providing sufficient volume of trade, both import and export or cargo so as to maintain a reasonable volume and variety of shipping for the country concerned. The imports and exports represent the deficits or surplus

production of the country, which must lead to international trade, however, insistent the country's policy may be in regard to self-sufficiency. It is such trade which would inevitably develop also the country's shipping. (*See App. VIII*).

Cottage industries suitable for export trade

In dealing with the overseas trade of a country, we should not confine ourselves merely to big industries. Those small-scale or cottage industries which specialize in artistic production or skilled craftsmanship and which may be more or less unique in this country would also be best suited for providing an export surplus. Thus carpet making and all analogous articles, carved work in wood and ivory of all kind, shawls and embroideries, even now command a good market in foreign countries. The producer needs to be organised properly and his work needs to be standardised so as to admit of clear cataloguing, definite quotations, and regular supply of required quality. The artist is in all countries, and has been all through the ages, not a businessman; and so, if in this commercial age, this great handicap or deficiency is to be effectively remedied, the State would have to come to the assistance of such producers to enable their creations to find a profitable market, if not at home, at least abroad in those countries which have learnt to value such products.

Place of Cottage Industries in the foreign trade

The small-scale industry would, on the basis given above, be primarily used to supply the balance of domestic needs not supplied by large-scale industry. Only in the case of some special artistic production or craftsmanship, which makes the product somewhat unique would it command any portion of the export market. In the latter case, trade agreements may secure, where possible, preferential treatment for such products being, in a manner of speaking, non-competitive and a speciality of this country. The small-scale producer is *ex hypothesi* poor in capital and credit resources; he is weak and unorganised in as much as he is an individual worker, scattered all over the land, and working without any expert aid to study market possibilities, make proper advertisement of his wares, and maintain standard quality to meet the various needs of the several markets he caters for. He may have hereditary or acquired skill and craftsmanship of a very high order. But in the commercial age in which we are living, unless he can advertise his wares properly; maintain catalogues and contacts with both domestic and foreign consumers he would not be in a position effectively to hold his own against the large-scale producer. It is, therefore, necessary that some kind of preferential treatment be given to him by Government so that he may be able to maintain his ground, and carry on his craft on a little better than starvation wages.

Special steps may be needed to safeguard such special craftsmanship or artistic creations. Preference may be shown to such industry by way of securing adequate and suitable raw material, either within the country or obtaining it from outside to enable the highest quality of such ware being produced. Financial assistance or credit facilities given to them should not be treated as in any way coming in the way of freedom of trade, if that be the objective of any such trade treaties.

Within the country, the products of these industries are likely to find their greatest demand. At the present time, they meet only the gap in local production. This deficiency may continue for some years before large-scale industry is able to meet the entire local demand even in the most advanced industries. But apart from this, some of these industries may deserve to be protected and maintained for their own safe for the craftsmanship and beauty of their products, which cannot be appreciated or survive in a regime of absolute free competition. Almost every protective duty has taken the shape of import duty, generally on the finished goods, but sometimes also on the raw material, such as cotton. The former is automatically protective and the latter guarantees a source of supply of the quality required by the smaller producer. A worker, particularly excelling in quality of product, must have material of the quality and in the quantity he is accustomed to work with if he is to do justice to him-

self and to his customer. Even then he has his own handicaps and difficulties with regard to competitions from the larger producer, both at home and abroad. But he may be enabled to stand that competition if State assistance is provided to him in some such form including a guaranteed demand for his out-put. For this purpose it is of the utmost importance that the cottage industry should be properly organised district-wise or province-wise. That would help to encourage specialisation, standardisation and maintenance of quality which would counterbalance the other disadvantages of the cottage worker.

If a policy is adopted deliberately to keep alive, encourage and support small industry, in cases where there are also competing large industries, protection to all of them by way of import duties would perhaps not suffice to secure them reasonable living conditions. Other measures like a proper supply of the necessary raw materials, better organisation and credit facilities, and appropriate marketing arrangements would be needed. These are matters of domestic arrangement, in which foreign trade treaties would not be materially affected. Besides, there are certain cottage industries like carpet making, etc. which can be produced in abundant quantities for export trade, and a favourable freight rate can do much to encourage their development.

Country Craft

Analogous to the place of cottage industries in the industrial sphere is the place of country craft in the sphere of sea transport. This form of transport is essential for relieving the pressure on steamships and also to serve many ports which cannot be reached by steamers. The transport of agricultural produce between smaller ports is mostly done by means of country craft.

In the case of the shipping industry, we may well consider the sailing vessel or the country craft of today as corresponding to the small-scale industry in regard to manufacturing industries as a whole. All the characteristics of large-scale industry are to be found in the steam or motor vessel. It is usually fairly large in capacity with rapid operation and employing a large number of hired labour. It plies over long distances, carries cargo in bulk, and is, therefore able to afford economies comparable to the large-scale manufacturing industry. On the other hand, the sailing vessel is usually small in size, hardly exceeding, perhaps, 50 or 100 tons, generally plies along the coast, carries a small quantity of relatively cheap commodities, is motived by the natural force of wind, and worked by the labour of one or two families specialising in sea-faring provinces. The capital needed for equipment and operation is also comparatively very small, and the problems of maintenances and those arising out of the terminal facilities, labour needs, etc. are all of the same genus as those in connection with cottage industry. In times of emergency like a World War, it has given the same service as the cottage industry, to supplement production of such commodities as are impossible to be produced within the country in the quantity required, either because of the absence of the necessary capital equipment, renewal or replacement of machinery and analogous factors, or because of the sheer absence of raw material, technical skill and other such pre-requisites.

Under such circumstances the sailing vessel helps even better than the cottage industry in supplementing the country's mercantile marine, and containing the carrying trade of the country economically, expeditiously, and in the quantities required. This helps to maintain the equilibrium that would otherwise be wholly shattered. The Report of the Sailing Vessels Committee, appointed by the Government of India in 1948-49, takes the same view.

It will accordingly be necessary to maintain this supplement or adjunct to the power-driven mercantile fleet, both for normal peace-time and for war-time needs.

Statement showing Tonnage of cargo of all descriptions exported by Sailing Vessels (Country Craft) during the following years through the following ports.

Serial	Ports	1944-45		1945-46		1946-47		1947-48	
		No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons
1	Bombay . .	Not	available	25,819	6,74,084	22,970	5,99,648	20,043	5,33,401
2	Minor Ports in Bombay Presidency .	27,257	5,89,736	26,267	5,05,595	24,826	5,07,106	22,327	4,23,607
3	Saurashtra Ports .	8,006	1,65,298	7,805	2,00,088	7,779	1,34,550	7,999	1,74,696
4	Ports in Madras Presidency . .	8,649	5,03,788	7,547	4,17,266	5,347	2,78,270	6,258	3,46,205
5	Sind, Konkan and Mormugao . .	7,212	2,49,951	9,711	3,53,337	8,182	2,90,467	6,854	2,49,599
6	Cochin . . .	1,449	32,940	1,110	28,083	454	14,090	593	8,734
7	Kandla (Kutch) .	536	4,078	517	8,250	526	1,618	774	10,054
8	Baroda State .	3,224	29,530	3,154	33,397	3,339	43,113	3,388	48,560
9	Travancore . .	447	25,902	376	30,802	137	420	105	544
	Total .	56,780	16,10,223	82,306	22,51,902	73,650	18,69,282	68,341	17,95,400

Statement showing Tonnage of cargo of all descriptions imported by Sailing Vessels (Country Craft) during the following years through the following ports.

Serial No.	Ports	1944-45		1945-46		1946-47		1947-48	
		No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons	No. of Craft	Total Quantity in Tons
1	Bombay . .	Not	available	41,982	8,36,381	35,888	7,08,436	35,779	6,52,138
2	Minor Ports in Bombay Presidency	24,278	2,71,839	23,674	2,77,639	23,604	2,80,332	23,063	2,86,973
3	Saurashtra Ports .	7,622	2,03,868	7,462	2,00,718	7,903	2,54,096	7,639	2,76,427
4	Ports in Madras Presidency . .	6,432	3,67,639	5,981	3,45,389	3,988	2,14,969	4,556	2,54,519
5	Sind, Konkan and Mormugao . .	4,214	1,46,737	7'386	2,72,279	7,021	2,47,805	5,265	1,92,777
6	Cochin . . .	1,449	77,329	1,110	56,231	454	22,372	593	20,192
7	Kandla (Kutch) .	526	9,105	506	6,861	533	9,876	812	13,079
8	Baroda State .	2,378	24,049	2,207	19,143	2,125	16,546	2,187	17,478
9	Travancore . .	447	26,359	376	8,329	137	4,196	105	3,390
	Total .	47,346	11,26,925	90,684	20,22,970	81,653	17,58,628	79,999	17,16,073

Difficulties of Indian enterprise in water transport

Having examined the growth of both large and small-scale industries from the angle of export market during the last few years, let us consider the economics of the most suitable form of transport to carry this trade.

The great economy of water transports, in large vessels, with bulk carriage of goods over long distances, has already been explained and emphasised above and so need not be repeated at this stage. Its contribution to the development and expansion of local industry, agriculture and other forms of production ; its service in the cause of international co-operation, and increased employment require no demonstration. Nor need we repeat what has already been stated—the immense volume of wealth of this country, aggregating over Rs. 60 crores most of which is being every year invisibly drained away because the bulk of her own overseas trade is carried in non-Indian bottoms. This wealth, retained in the country, could provide not only employment for large numbers if a corresponding merchant fleet was built up and maintained by the country itself, but also aid at the same time very effectively indigenous industry which today is badly needed.

At the time, however, that the consciousness of this need of the country's economy began to dawn upon her leaders, the domination of Britain in the governance of India was absolute and unquestioned. That domination operated in the economic field to support, maintain and advance British interests, which had practically acquired a monopoly of the carrying trade between India and all her customers, whether within the Empire or outside. Indian enterprise, such as it had been was either relegated to the small, uneconomic, sailing vessels plying on the coasts ; or driven out by ruthless competition from any share of the carrying trade of the country.

With the outbreak of World War I, the British Government in India realised thanks to the German submarines, the need for some sort of supplement to British shipping doing business along the Indian coasts, as well as overseas, which may be owned and worked by Indians, in subordinate co-operation and dutiful alliance with the British. The heavy casualties in British shipping due to German submarine warfare depleted British shipping suffered losses, the need for supplies being sent to or received from India, and the means to transport them, grew more and more acute. British Possessions in India and farther East were also endangered for want of contact and communications. Official attitude, therefore, began gradually to change towards Indian efforts for building up a necessary, adequate, and efficient shipping and a corresponding shipbuilding industry, owned, manned and controlled by Indians.

Indian leaders also realised this from their own nationalist angle. Soon after the close of World War I, and thanks to the growing realisation of economic exploitation which was then dawning upon the Indian public imagination, the first large-scale venture was begun in the shape of The Scindia Steam Navigation Company Ltd. This venture was found to take a fair share in the coastal trade of the country, and thereafter in the overseas trade. It began with the purchase of a single steamer which had served as a hospital ship during the war, and which was intended to be reconditioned for passenger service between Bombay and London. It was soon discovered, however, that the enterprise would in no way commend itself to the vested British interests ; that the sympathies of the then Government of India were wholly with the British ; that the latter had perfected a whole arsenal of competition devices, which could drive to despair and out of existence any foolhardy competitor ; that they would not hesitate to use any or all of these devices to retain their monopoly ; and that in all that they did or refrained from doing, they would have the support of the Government of India and of the British Government as well.

The newcomers in the field were strangers to the venture. They had neither knowledge nor experience of running a modern shipping business. They had no custom or connection, which had all to be built up in the face of ruthless relentless opposition and active hostility from vested interests. They had no

vessels of their own; and if they meant to run a shipping service, they must build or charter the necessary tonnage. The country lacked a shipbuilding yard, or even a decent ship-repair shop. There were no marine engineers, no wireless operators, no trained navigators or experienced officers. All these resulted in their finding that the reconditioning of the ship they had purchased cost them ten times the time they had been advised it would take, and twelve or fifteen times the money they were told would be required. Whether this was intentional or accidental, it all showed the odds against which they had to work. Their only assets were : an unshakable faith in the justice of their cause, a growing popular consciousness of the lacuna in the national economy, and the knowledge that the country was with them in the resolve to wrest the foreigner's monopoly in the Indian seas.

Recent experience of Indian steamship concerns

The promoters soon learnt that a single ship could not suffice to take any shape worth the name in the country's carrying trade— goods or passengers. Nor would it be economic to operate at all. The Company, therefore, decided to purchase a fleet of its own from the surplus tonnage available in Europe and in course of time, take steps to build up a modern, efficient, shipbuilding industry within the country itself. The fleet was accordingly bought, and Indian-owned steamers berthed in Rangoon. But the moment it began operations, it discovered innumerable handicaps, impediments and obstruction, born of the jealousy of British monopolistic, vested interests in this country.

The monopoly had been built up and reinforced among other devices, by a very effective system of the so-called Deferred Rebate. Under this arrangement a customer who had taken the service of the existing shipowner plying on the Indian coasts—which then included the Burmese coast line right up to the Malayan territory—was bound to keep, as a deposit, with the shipowner, a part of the freight money which in normal course would be refunded if he continued to give his consignments to the same shipowner in the next following season. But this would be forfeited if he broke the arrangement and took his custom elsewhere. This was a heavy penalty for any large shipper to pay for satisfying his nationalist sentiment.

The Indian merchants, who shipped their goods by the vessels of the foreign concerns, were, however, increasingly animated by a desire to support the national enterprise, not only because in the long run they stood to benefit themselves by the growth of that enterprise, but they also realised that it provided the one guarantee of national security as and when the ideal of political independence was attained. The fight then going on an increasingly intensive scale in the political field was reproduced in the economic field on a variety of fronts not the least important of which was this shipping front.

The grave handicap, disability, or weakness in India's national economy, due to the absence of an adequate mercantile marine of her own was first made manifest in World War I. It directly led to the more farsighted and constructive of the Indian enterpreneurs starting this business on at all a comparable scale. It was more than amply demonstrated to the badly needed in the course of World War II. The presence and opposition of the non-Indian vested interests, which had acquired, by all kinds of means, fair or foul, a practical monopoly of the carrying trade of this country, both along its coasts and overseas, and which did not hesitate to adopt every means, legitimate or otherwise, to crush out of existence any rival Indian enterprise the moment it appeared on the scene made it impossible for this indigenous enterprise and industry to succeed and develop at all in proportion to the requirements of the country's local production and exchange of commodities as well as coastal and foreign trade.

As in the case of all other modern, mechanised large-scale industry, modern-type shipping was a new, unfamiliar, infant industry which had all the handicaps of such venture in India under the British regime. Added to this initial handicaps, was the ruthless competition and relentless opposition of the most powerful and well backed British shipping interests, represented by the British India and the Peninsular and Oriental Steam Navigation Companies. The

former functioned mainly in India's coastal trade, while the latter in conjunction with other non-Indian Companies practically monopolised the overseas business of carrying both goods and passengers.

The moment, however, an Indian-owned and Indian-managed enterprise of comparable scale and competing ability made its debut, the foreign monopolist took alarm, and adopted every means to drive the former out of business. To give an example of the kind of competition non-Indian enterprise indulged in against the indigenous "infant" coming to compete. The prevailing freight in the Rangoon-Bombay rice trade was Rs. 18 per ton. The moment, however, the Indian concern had berthed its first vessel in Rangoon, the non-Indian concern reduced the freight to Rs. 12 and went on reducing progressively till in a few months it touched Rs. 6 per ton, thus involving the new Indian concern in unbearable losses.

Such a loss on a wholly new concern would not but drive it to despair. With a view to crush out of existence the nascent Indian venture, and with the help of all its huge reserves of 50 years' monopoly profits, as well as large trade connections even beyond the shores of India, the profits of which could be diverted to offset the Indian business losses for a while, the non-Indian enterprise offered a fierce competition so that a new lease could thereby be given to its monopoly for another generation. The Indian venture had to build up its fleet, its technical experience and business connections in all of which the foreign enterprise was rich beyond compare. Its only assets were the courage and determination of its promoters and directors; the patriotic fervour of its customers and compatriots; and the zeal and efficiency of its officers and managers. These were great but intangible assets. And yet, if the Indian concern could not all at once make good its footing against such heavy odds; if it could not avoid losses; if it did not secure its legitimate dues, it gave, from the start, a good run for its money to its opponent and eventually forced it to share the business, even it could not wholly capture it.

When they did not succeed entirely in wiping off the Indian concern, these non-Indian shipowners offered to buy the Indian concern wholesale, and so retain their own monopoly and avoid still heavier losses to themselves. Even that effort did not lead to the extinction of the Indian competition, not because the Government of the country came to its aid, but because of the vision and patriotism of the Indian authors of the enterprise, the Directors and Proprietors. They resolved to make all sacrifices, bear all losses, face all obstruction, in order to build up an integral item in the country's economy, and ensure an indispensable help in the very existence of the Nation.

As the Government of the country did not give any countenance to the indigenous enterprise, but instead offered every encouragement, protection or safeguard, direct or indirect to the foreigners in the Indian seas, the latter were naturally emboldened and enabled to corner and hold a very large slice of the carrying trade of this country. They carried almost all the mails and troops, as well as public servants, officials and dignitaries, whenever the latter had occasion to travel by sea.

They could not, of course, avoid, the competition of other European and Japanese Shipping concerns doing business in Indian waters. For each of the latter was strongly protected, heavily subsidised, and widely bounty-fed, or otherwise aided by its own Government. Against these rivals the British Government did not or could not offer any protection or assistance to the Indian enterprise. On the contrary, against the Indian enterprise, protection and assistance to the British ventures was pratically without limit,—a veritable spectacle of Goliath being assisted in every form against David, or as Mahatma Gandhi described the struggle, of the giant against the dwarf. They even connived at the doubtful practices of Deferred Rebate and similar objectionable devices to hamstring Indian enterprise.

The apathy,—not to call it by a harsher though juster name,— of the then Government of India towards this essential item in the national economy, this basic industry of vital importance to the very existence of the country, despite declarations by the highest authority in the country, and despite repeated efforts at honourable settlement by persuasion and negotiation, made it impossible for

the hardiest Indian enterprise to grow to its legitimate proportions. It could not render the service, and provide the element of safety in times of national emergency, which is expected of every national shipping service. It could not help in the building up of the country's economic strength through a well developed and flourishing industry or increase its sense of national security, which must be the aim of every sound national Government.

Figures are attached below to show the proportion of shipping which is owned, manned and controlled by Indians at the end of World War I, and at the beginning of World War II, as well at the present time, *i.e.*, four years after the end of World War II. In grim contrast is the shipping position or other countries, both within and outside the British Commonwealth, which shows how even the great calamity of a World War can be utilised by a Government, really intent upon stimulating native enterprise in all sectors of the national economy. While the U.S.A., which had comparatively small ocean-carrying tonnage at the end of World War I, rose to be the first shipowning and shipbuilding country of the world,, Canada and Australia rose to the 12th and 17th place in the shipowning countries of the world. As against these, India has increased her tonnage by barely 177,000 tons above the 1939 level, occupying practically the last place among the 30 maritime nations of the world.

Gross tonnage of steamers and motor ships owned in the world as at the end of June in the following years based on Lloyds' Register Book (in '000 tons).

	1919		1939		1948	
	G. R. T.	%	G. R. T.	%	G. R. T.	%
Great Britain and N. Ireland	16,345	34·13	17,891	26·12	18,025	22·45
India	..	..	150	00·22	315	00·39
Other Br. Dominions, Colonies etc. . . .	1,863	3·89	2,961	4·32	3,375	4·20
U. S.—Sea	9,773	20·40	8,910	13·01	26,900	33·50
U. S.—Lakes . . .	2,160	4·51	2,452	3·58	2,264	2·82
Denmark	631	1·32	1,175	1·72	1,123	1·40
France	1,962	4·10	2,934	4·28	2,786	3·46
Germany	3,247	6·78	4,483	6·54	428	0·53
Greece	291	0·61	1,781	2·59	1,286	1·60
Holland	1,574	3·28	2,969	4·33	2,737	3·41
Italy	1,238	2·59	3,425	5·00	2,100	2·62
Japan	2,325	4·85	5,630	8·22	1,024	1·28
Norway	1,597	3·33	4,834	7·06	4,261	5·31
Spain	709	1·48	902	1·32	1,147	1·43
Sweden	917	1·91	1,577	2·30	1,973	2·46
Other Countries . . .	3,265	6·82	6,435	9·39	10,548	13·14
Total .	47,897	100·00	68,509	100·00	80,292	100·00

Rate war in Coastal Shipping

As against these rapid developments in the tonnage of the leading maritime countries of the world the growth of Indian Shipping was being stunted. The fortune of the new Indian enterprise was meeting with a serious and continuing obstruction in every direction from the vested interests of British shipowners in this country. We have alluded to a few already, but let us view them here in a connected perspective.

The rate war, which began immediately the Indian-owned ships made their appearance in the coastal trade of India, threatened the very existence of the new Company even before it was able to build up a fraction of the fleet, and connection necessary to do even a portion of the carrying trade of the country along its coasts. Table on pp. 260-261 showing the Scindia Steam Navigation Company's working from 1920-48 is eloquent of the vicissitudes it has had to weather. Having no reserves—except uncalled capital—to meet the losses of the Rate War which lasted 4 years, it had necessarily to lay hands on its capital for even working expenses; and a part of the Capital had to be written off. The British rivals of the Indian concern had immense reserves, built up by a 75-year monopoly, and the backing not only of the Indian but also of the British Governments to make good its stand against the new competitor that entered the field. They, therefore, stood out longer and worked hard, inflicting repeated losses on their Indian rival so that it could be got out of the field altogether. The latter, however, showed unexpected tenacity and an unyielding capacity to resist. Year after year losses were reported and borne without murmur even though capital began to disappear in paying such losses. The shareholders of the Company decided to refuse the tempting offer to be bought out made by the owner of the principal rival enterprise.

Thereupon realisation of the short-sightedness of a rate war in the face of a national demand and the threat of growing unpopularity of unfair competition which would eventually lose them the entire business, made the British interests to come to terms. A ten-year Agreement was made in 1924 with the Indian venture,—which had by this time acquired an aggregate tonnage of some 75,000 tons—allowing the latter a small slice of the coastal trade. It enabled the latter to keep its head above water, to have breathing space, and to look around for ways and means of further expansion and development to its legitimate proportions.

Summary of Balance Sheets of Indian Shipping Companies (Rupees in '000).

Year	Authorised Capital	Subscribed Capital	Earnings	Depreciation	Taxation	Other Reserves	Profits or loss (—)	Dividend	Bonus to Share holders	Bonus to Staff	Exp. including wages, salaries, agents' commission, etc.	Wages and salaries	Agents' commission
Scindia S. N. Co. (Years ending 30th June).	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1920	4,50,00	4,49,18	11,64	1,88	Nil	..	5,57	..	..	..	6,07	1,23†	92
1921	4,50,00	4,49,18	15,34	4,50	90	..	9,95	4,68	..	..	5,39	4,15†	1,11
1922	4,50,00	4,49,18	16,67	4,00	2,77	..	11,23	6,24	..	..	5,44	95	1,44
1923	4,50,00	4,49,18	6,09	..	90	..	—5,39	..	..	..	11,25	1,05	..
1924	4,50,00	4,49,18	15,56	..	9	1,00*	11,40	5,46	..	10	4,16	1,06	1,28
1925	1,50,00	89,84	13,21	2,50	1,00	1,00*	10,47	6,23	..	20	2,74	1,00	1,05
1926	1,50,00	89,84	14,47	3,50	1,30	..	11,22	5,83	..	25	3,24	90	1,25
1927	1,50,00	89,84	15,14	4,30	1,30	1,50‡	12,07	5,83	..	30	3,07	7,68	1,34
1928	1,50,00	89,84	9,52	3,25	20	25	6,68	2,92	..	20	2,84	9,23	74
1929	1,50,00	89,84	5,39	4,00	..	50*	—2,42	..	..	..	7,81	10,28	1
1930	1,50,00	89,84	1,83	4,00	..	..	—5,74	..	..	..	7,57	9,81	..
1931	1,50,00	89,84	8,71	4,00	..	..	2,17	1,46	..	7	6,54	8,16	69
1932	1,50,00	89,84	10,68	4,00	..	..	2,96	1,46	..	7	7,72	8,12	77
1933	1,50,00	89,84	3,15	4,00	..	..	—5,56	..	..	..	8,71	9,90	..
1934	1,50,00	89,84	12,55	6,00	..	..	3,73	..	..	..	8,82	..	1,08
1935	1,50,00	89,84	19,59	6,00	..	25‡	10,04	2,19	..	25	9,54	11,21	1,78
1936	1,50,00	89,84	18,46	6,60	..	1,50‡	8,07	5,84	..	25	10,40	10,94	1,63
1937	1,50,00	1,49,84	1,20,25	10,00	5,25	2,50‡	15,45	7,13	..	30	1,04,80	13,53	2,83
1938	1,50,00	1,49,84	1,31,09	10,00	2,00	3,00‡ 150*	16,49	9,84	..	40	1,14,60	14,63	2,95
1939	1,50,00	1,49,84	1,44,10	10,40	2,25	1,00‡ 3,50*	16,89	9,84	..	40 60	1,27,21 1,52,65	16,40 19,74	3,03 3,87

*Bad Debts Reserve.

This includes miscellaneous establishment expenditure also.

†Fleet Replacement Account.

‡Marine Insurance Fund.

Summary of Balance Sheets of Indian Shipping Companies (Rupees in '000).—contd.

Year	Authorised Capital	Subscribed Capital	Earnings	Depreciation	Taxation	Other Reserves	Profits or less (—)	Dividend	Bonus to share holders	Bonus to Staff	Exp. including wages, salaries, agents, commission, etc.	Wages and salaries,	Agent's commission
Scindia S. N. Co. (Years ending 30th June).	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1940	2,25,00	2,24,84	1,78,09	12,35	9,00	..	25,44	12,34	3,08	60	2,15,20	27,64	6,57
1941	2,25,00	2,24,84	2,35,78	19,00	44,00	50§	20,59	14,84	3,71	70	2,16,47	31,03	5,65
1942	2,25,00	2,24,84	2,35,05	13,26	47,00	..	18,57	14,84	3,71	1,10	2,42,52	53,57	6,12
1943	2,25,00	2,24,84	2,62,09	15,50	8,00	25§	19,57	14,84	3,71	1,10	1,96,38	62,96	5,78
1944	2,25,00	2,24,84	2,16,44	15,50	16,50	25§	20,06	14,84	3,71				
1945	2,25,00	2,24,84	3,05,42	16,02	41,75	1,00	21,83	14,84	3,71	2,25	2,83,59	78,53	6,96
1946	4,50,00	4,49,84	4,59,13	15,16	1,31,00	33,11†	54,07	14,84	3,71	2,25	4,05,06	70,36	12,91
1947	4,50,00	4,49,84	4,03,94	24,77	49,75	4,45	41,80	29,83	7,46	..	3,62,14	70,99	11,04
1948	6,75,00	6,74,84	4,99,60	29,16	31,00	..	16,89	14,92	..	..	4,82,71	1,00,44	Nil
India Steamship Co., Ltd. (Years ending 31st March).													
1947	3,00,00	2,50,00	25,39	3,09	2,17	..	7,88	1,25	..	..	17,51	3,57	1,61
1948	3,00,00	2,50,00	1,45,51	19,87	3,17	8,00	9,31	1,25	..	..	1,36,20	19,01	5,79
Bharat Line Ltd. (Years ending 31st December).													
1946	3,00,00	1,00,00	12,46	..	..	..	79	..	..	..	11,59	2,96	19
1947	3,00,00	1,00,00	56,16	9,98	..	..	3,61	3,00	..	18	52,55	7,74	98
1948	3,00,00	1,00,00	1,10,78	22,42	..	..	3,48	3,00	..	40	1,07,30	17,79	2,55

§ Staff Amelioration Fund.

† Fleet Replacement Account.

Historical Review

At this stage, let us cast a brief glance at the history of this industry, its vicissitudes, and present position. Upto the foundation of the British domination in India, it is an undoubted fact of history that India had her own ships built in her own yards, of her own timber, worked by her own sons, and carrying her wares to lands beyond the seas and bring their products to our shores. Even during the early stages of British Imperialism, India had her shipyards, her shipwrights and her sailors of all degrees. It was only after the introduction of steam as motive power, and steel as body material, that India began to fall behind in the race, lost her ancient craft, and starved her race of seafaring adventure.

Even then, India had an extensive trade in many articles in yarn with China, for instance. When the late Mr. J. N. Tata found that the rates of freight on yarn from India to China were raised in support of the British yarn producer so high as would make it impossible for Indian to retain the Chinese market for Indian yarn, he chartered a few boats for carrying yarn to China at reasonable rates. The P. & O. Company, which had a practical monopoly of that trade, would not tolerate an Indian Company carrying cargo in India's overseas trade, and so they started a rate war against the Tatas by reducing the rates from Rs. 16 to Re. 1. The Indian concern could not withstand such a relentless competition and had to go out of existence. When the Indian competitor disappeared, the rate was again raised from Re. 1 to Rs. 17. This enabled the P. & O. to make up for any loss it may have sustained during the rate war started by it.

British shipping thus continued to raise its edifice built on the ruins of Indian shipping. Even in the coastal trade itself, low rates were adopted by the British India Steam Navigation Co.—a subsidiary of the P. & O.S.N. Co., Ltd.,—to crush many Indian Shipping Companies from time to time. High monopolistic rates usually followed the disappearance of nascent concerns which tried to establish regular sailings between Indian ports. The story of the passenger trade from Bombay ports to East African coasts, or the Bengal Burma Company in its conflict with the British Indian Steam Navigation Company, are further and cruel illustrations of the same practice.

One of the many Indian companies, that went into liquidation was the Bengal Steam Navigation Company, which, in 1905, ran its ships between Chittagong and Rangoon. As soon as this Company came into existence, the B.I.S.N. Co. reduced the fares for deck passengers from Rs. 12 to Rs. 6 and the freight from Rs. 14 to Rs. 4 per maund. Sweets and handkerchiefs were also freely distributed to those who patronised the B.I.S.N. The result was that this new Company struggled for five years; and in 1910 it went into liquidation and disappeared from the scene. As soon as that concern was driven to the wall, the British India Company, raised their fares to Rs. 14, against Rs. 12 in force before the ruinous rate-war, to compensate themselves for the loss incurred during the struggle.

Although the story on the West Coast of India was less tragic, that coast too, has not been free from rate wars. In the early thirties, for example, the British India S.N. Co., Ltd. indulged in cut-throat competition against four small Indian Companies, the Eastern Navigation Co., the Malabar Steamship Company, the Merchant Steam Navigation Co. and the National Steamship. As an illustration, the following is highly instructive. At one time the freight from Bombay to Tuticorin was reduced by the B.I. from 12 annas to 3 annas per bag, just to make it impossible for its smaller rivals to exist. Some of the concerns on this side, too, have had to be taken over bodily by the largest single Indian concern, the Scindia Steam Navigation Co., Ltd., to keep them alive. It was misrepresented as a venture in monopolisation of the Indian-owned steam craft plying on the coasts. But the concerns took over included the British managed Bombay Steam Navigation Co., Ltd. originally started by an Indian who was forced to sell out to a British Managing Agency firm, from which the Scindia Company purchased it, to make its position a little stronger against the colossus of the coast, the British India Steam Navigation Co., Ltd.

For the Scindia Company it was a question of keeping alive Indian opposition to the British monopolist—an essay in practical nationalism to make its own competition more effective against the alien monopolist, and not to make its own venture a monopoly. The success of this policy is exemplified in the 16 Indian Companies operating on the coast of India today.

Mention has already been made of the doubtful propriety of the system of Deferred Rebates, practised as a device to prevent competition by Indian enterprise against the British monopolist. Originally, the system was evolved to meet the shippers' need for assured regular sailings from certain ports to others. To meet this demand without loss to himself, the shipowner naturally asked for some guarantee that, if he ran a shipping service regularly from and to given ports, he would find sufficient cargo for every voyage. The underlying principle of that system is : that the shipper should have a strong incentive to have his goods carried by the ships of the line or lines who had undertaken to provide such regular service. If the freight is, say Rs. 16 a ton a particular class of goods, the shipowner undertook to refund, say 10 per cent of the freight, provided the shipper could satisfy him that he had not during a particular period shipped goods by any other line. If he was found to have done so, he forfeited his rebate.

As the system worked in practice, it was almost impossible for a shipper to break away, once he had committed himself to a particular line or group of lines without serious loss to himself. For example, if he has shipped, say 10,000 tons of rice at Rs. 18 per ton, in the quarter January-March by a given line of steamers, he would become entitled to a rebate of 10 per cent of the freight he had paid, *i.e.*, Rs. 18,000. This rebate would not be actually payable until the beginning of the July-September quarter. He would forfeit it if during the April-June quarter he had shipped goods by any other line. As the bulk of the tonnage plying on the Indian coast was owned by the British India Steam Navigation Co., Ltd., that Company was always in a position to use the Deferred Rebate System to ensure that the shipper did not, as far as possible, ship his cargo by any of the newly formed Indian Companies, and thereby promote the latter's growth.

Notwithstanding this aspect, the device had its good points. Whatever the effect of the Deferred Rebate on competing Indian Shipping in the early stages of that industry, Indian Shipping Companies, once they had entered the Coastal Conference, were equally protected by this guarantee of traffic and their own consequent ability to maintain regular service. Once the sting of unfair competition by foreign shipping monopolists, protected by the secret sympathies of the then Government of India, had been removed, the competing Indian concerns did not find the system of Deferred Rebate to be and in principle. There is, therefore, no longer the same outcry against it and the demand for its abolition by law as there was in the twenties. The new licensing system, established by legislation, serves all the purposes. The competing Indian enterprise had asked for it in the days of its own beginnings ; and so the entire problem has changed its complexion.

Evolution of Government Policy re : Indian National Shipping since 1918

For a just appreciation of the lack of support, assistance or encouragement Indian national shipping enterprise received at the hands of the Government of India, a glance at the history of the Central Government's policy in respect of Indian shipping would be as interesting as it is instructive. There was a universal demand for an adequate, efficient, economic, national mercantile marine, ever since the consciousness began in the Indian public mind of the drain of wealth from the country from this invisible source, and the manifold handicaps, the lack of an adequate mercantile marine inflicted upon our national economy and security.

Soon after World War I, which had demonstrated beyond the possibility of doubt, the country's need in this behalf, the first sizeable attempt to meet it was the appointment by Government of the Indian Mercantile Marine Committee in February 1923. It was their response to a Resolution moved by Sir

P. S. Sivaswamy Aiyar in the Indian Legislative Assembly, and adopted by that body on the 12th January 1923. We have already considered the terms of reference to the Committee and seen a summary of its recommendations and so need not repeat them here.

The only recommendation of the Committee Government accepted and implemented was the establishment of the Training Ship "Dufferin" in 1927, to train Executive Officers. Since 1st January 1935, another part of that recommendation has taken effect in the shape of marine engineers being trained there.

No other recommendation was accepted, and Indian public opinion was gravely perturbed.

Attempts made by new Indian shipping companies, founded since 1920, to run ships on the coast and elsewhere had met with disaster, due to the severe and relentless competition from the established monopolistic British lines. This disappointment, coupled with the findings and recommendations of the Mercantile Marine Committee intensified public demand for the development of a true and sufficient national shipping.

A number of non-official resolutions and bills were brought before the Central Legislature to foster and develop Indian shipping. They were aimed at remedying specific handicaps which were believed to impede or obstruct the growth of Indian shipping. One sought to secure reservation of the coastal trade, while another tried to do away with the Deferred Rebate system.

16*th March* 1922 :

The Hon'ble Mr. Lallubhai Samaldas moved the following resolution on Ship-building Industry in the Council of State on the 16th March, 1922. The resolution was adopted.

> "This Council recommends to the Governor-General-in-Council to appoint a Committee of Officials and Non-officials to consider the best means of helping the ship-building industry in this country and to make recommendations regarding the same."

19*th March* 1926 :

The following is the text of a resolution moved by Sir P. S. Sivaswamy Aiyar in the Legislative Assembly on the 19th March 1926 :

"This Assembly recommends to the Governor-General-in-Council that he will be pleased :

(a) to recognise the need for the training of Indians for nautical careers and encouraging the creation of an Indian Mercantile Marine ;

(b) to accept the policy and measures recommended by the Indian Mercantile Marine Committee ;

(c) to take early steps for the training of Indians in a suitable training ship in Indian waters, for the provision of facilities for their further training as apprentices in mercantile marine ships, and for their employment after completion of training ;

(d) to arrange for the establishment of primary nautical school in selected maritime stations and the introduction of Marine Engineering as a subject of instruction in the Engineering College at Sidpur ;

(e) to announce his intention to adopt in the near future a system of licensing in respect of the coastal trade of India."

The Hon'ble Sir Charles Innes, Commerce Member, moved an amendment which ran as follows :—

> "That the debate on all subjects covered by the resolution except the proposed training ship be adjourned till the next session and that as regards the training ship, the Assembly recommends to the

> Governor-General-in-Council that the scheme for establishment in Indian waters of a training ship for deck officers should be accepted in principle."

Sir P. S. Sivaswamy Aiyar's resolution was adopted as amended by Sir Charles Innes.

9th February 1928 :

Mr. S. N. Haji introduced in the Legislative Assembly a Bill to reserve the coastal traffic of India to Indian vessels. Similar bills for the reservation of the coastal trade were brought before the Central Legislature from time to time but we need mention only Mr. Haji's Bill as most of the controversies in respect of the reservation of the coastal trade centred round this Bill. The Bill was first circulated for opinion but then referred to a Sub-Committee. On its emergence from the Sub-Committee, Mr. Haji's Bill was recirculated for opinion, but, by the time the opinions were received, Mr. Haji had resigned for political reasons and the Bill lapsed later on owing to the dissolution of the Assembly.

7th March 1935 :—

The following resolution was moved in the Council of State by the Hon'ble Rai Bahadur Lala Jagdish Prasad :

> "This Council recommends to the Governor-General-in-Council to take suitable steps to build up an Indian Mercantile Marine at an early date with a view to an adequate participation of Indian shipping in the coastal and overseas trades of India."

The motion was adopted without division.

23rd March 1930 :

The Hon'ble Mr. P. N. Sapru moved the following resolution in the Council of State :—

> "This Council recommends to the Governor-General-in-Council to take more active steps for the expansion and protection of the Indian Mercantile Marine."

The motion was adopted without division.

Of all these attempts by the non-official members of the Central Legislature to secure adequate encouragement or protection for Indian shipping, Mr. S. N. Haji's Bill for the reservation of Indian coastal trade to Indian-owned, Indian-manned, and Indian-controlled shipping enterprise was the most important. But like others it failed, notwithstanding its reference to a Select Committee. The only tangible result was the Conference held in January 1930 under the presidency of the then Viceroy of India, Lord Irwin. Addressing the annual meeting of the Associated Chambers of Commerce (British business organisation), in December 1928, Lord Irwin had declared :

> "But I think that I am correct in saying that the main impulse behind the Bill I have referred to is not a mere desire to secure for Indian capitalists the profits which now are made by British Companies. Rather it is an ambition that India should have its own mercantile marine and that the ships of that mercantile marine should be officered as well as manned by Indian........."

Such words, however, of the highest Government spokesmen, were not followed by action, whenever Indian interests conflicted with British monopoly. The 1930 Conference was held to enable a full and frank discussion between the representatives of all the interests concerned in order to contribute towards a fair and agreed solution for the problem, and secure adequate participation of Indian shipping in the coastal and overseas trade of India. One of the crucial items on the Agenda of the Conference was :

> "Can it be provided for under an Agreement by which the Indian tonnage would increase gradually from year to year, while simultaneously the non-Indian tonnage was reduced ?"

During the course of the discussion, it was stated that Indian-owned tonnage might be increased by the purchase of British ships in the trade. While Indian representatives were willing to consider this method of purchase on its own merits, the British counterpart insisted that such a purchase could not only be of the ships but of the goodwill as well, of the trade. Replacement of British tonnage by Indian-owned tonnage for developing Indian Shipping was not acceptable to them. The fundamental object of the Conference could not thus be achieved; and so it broke up without achieving any agreement.

The main obstacle to the development of an adequate Indian-owned nique reproduced below :—

"The Government of India will take into consideration at an early date the issue raised in the discussions which took place at the Conference on the development of the Indian mercantile marine. As soon as it has been possible fully to consider these issues, the responsibility will rest with the Government of India of deciding what action should now be taken and whether any useful purpose would be served by inviting the interests concerned to meet again."

The main obstacle to the development of an adequate Indian-owned Mercantile Marine thus remained in the dominant, almost monopolistic, position of the British India Steam Navigation Company on the coast of India, and on all the shipping routes of the Indian ocean. Notwithstanding their declaration, Government proved utterly indifferent and perhaps unable, and this indifference or incompetence persisted all through the remainder of the British regime in India to foster the growth of Indian shipping from such relentless and powerful opposition.

The competing Indian enterprise had, as noticed already, sought a temporary solution by a ten years' agreement with the B.I. Company which permitted them to take a small share in the coastal trade of India. When that agreement came to be revised in 1933, with the good offices of the then Commerce Member, Sir Joseph Bhore, despite the assurance that it was their responsibility to secure an adequate participation for Indian shipping in India's overseas trades, Government proved utterly helpless when the B.I. insisted as the price of a new agreement, the practical exclusion of the Scindia Company, the only large-scale enterprise in that field, from the carriage of India's overseas trade. The new agreement was for five years and expired in 1939.

Tripartite Agreement, 1934

(1) "The cargo carried by the vessel of the three companies in the coasting trade of India, Burma and Ceylon is to be regulated and apportioned between them according to certain specified percentages.

(2) The Scindia Company have been permitted to carry passengers on the Rangoon-Coromandal coast and the Rangoon-Chittagong runs.

(3) The total gross tonnage of the Scindia Company (owned or chartered) has been raised to 100,000 gr. tons.

(4) The rates of freight for the carriage of cargo and the scales of passenger fares are to be jointly fixed in writing by the parties after mutual consultation and consent, and none of the parties is to quote or charge rates less than the rates thus fixed.

(5) In the event of any dispute or difference the matter is to be decided by arbitration."

In a subsidiary letter addressed by the Scindia Company to the British India Company at the time of the conclusion of the agreement, they have had to agree "to respect the P. & O. Company's and the B.I. Company's foreign (overseas) trade, and not to compete with them in those services."

Sir Thomas Stewart, who was Commerce Secretary in 1935, declared Government's policy in the Council of State on the 7th March 1935. He said :

> "The policy to be pursued has been the subject of much thought by the Government of India and after much thought they have come to the conclusion—they came to the conclusion some years ago,—that the best hope for the sound, economic, strong establishment of an Indian Mercantile Marine lay in the development of co-operation and a spirit of mutual accommodation between the various interests operating on the coasts."

Although the policy of co-operation had failed in 1930, and although the universal demand in the country to explore other methods of developing Indian shipping continued, Government did nothing to help develop Indian shipping.

This Tripartite Agreement was to be revised in 1939. Indian shipping interests tried their best to do so, both in England and in India. In spite, however, of repeated requests by Indian interest all these years to help them with Government's good offices to have revised that Agreement, Government did nothing in that direction. A Conference of British and Indian shipowners was called by the good offices of the two Governments in 1947. But it proved abortive ; and India has yet to fight her way in the list of ship owning nations of the world.

During the inter-war period, there was also the problem of protecting the interests of small Indian Companies operating in the coasts. As a result of the intervention of the then Commerce Member, Sir Joseph Bhore, an Agreement was reached by which 85 per cent. of the coastal trade in certain areas (West Coast Trade) was reserved for the same period for the small shipping companies operating there.

Pattern of our Foreign Trade

We have so far examined the trials and vicissitudes of the Shipping Industry and as we draw to the close of the war and the post-war period it would not be out of place to have a brief resume of the pattern of our foreign trade.

During the war years 1939-45, it was impossible to procure the capital or consumer goods which India did not produce herself, and for which her usual source of supply used to be Britain, the Dominions, the U.S.A., Germany, and Japan. Germany and Japan were, of course, out of the running altogether, during the war. In Britain the local industry had to be diverted almost entirely to war purposes, so that hardly any plant was available for civilian or consumer's goods. And the same might be said about the British Dominions like Canada, or allied countries, like France.

In the U.S.A. upto 1941, civilian production continued ; but the war demand of Europe for those goods as well as munitions was so intense, the possibility of U.S.A. joining in the war was so imminent and so rapidly growing every day, that even before the U.S.A. entered the war officially, the Lease-Lend system had been evolved mainly to supply the war needs of British and her Allies. When America joined the War on her own account, the entire productive organisation was turned towards supplying her own and the Allies' War needs ; so that the civilian demand in countries like India, either for consumer or capital goods, had to be almost utterly denied.

This was the chief explanation of the series of regulations which came to control both Imports into and Exports from India during these years. The control grew in scope and volume as the war intensified, till the larger portion of the entire foreign trade was covered by it.

The growing scarcity of Shipping also was responsible, for controls certainly after the unrestricted submarine warfare which Germany began, and which Japan followed up when she too entered the War. Prices also rose

very steeply but as Indian Industry and production of all kinds began to get ever higher prices. That would not by itself hinder exports from India or imports into this country by itself. But coming along with other factors, it affected the industrial position in India, favourably, even if temporarily.

The chief consumer of Indian exports, like cotton—both raw and manufactured,—were, before the War, Japan and the countries that had fallen under her domination. As they were cut off by the War, and as trade with free China was materially impeded, the principal exports of India naturally suffered a decline. Other articles, like Jute, came under the influence of Lease-Lend. The factors which affected imports also showed themselves in connection with the exports. That part of the trade also, therefore, had to be controlled.

After the end of the War, new difficulties have cropped up in this country, as well as outside, to influence international trade. The process of rehabilitation and reconstruction, which the principal belligerent countries, including Britain and the United States, had to take up, is not yet completed, except perhaps in the United States. But the aftermath of war and the prevailing tension in international relations inclines American energy to prepare for the next war or to rehabilitate and strengthen the Allies (*e.g.*, by the Marshall Aid Plan for European Recovery) which she may expect to have if and when that War comes, rather than to emphasize normal production and trade.

The prevailing scarcity of Dollar Exchange operates in the same direction making trade with the so-called "hard" currency areas more than ever difficult, particularly in regard to Imports.

British economy has been so affected by the war, all Britain's foreign investments having largely disappeared or used up, and her shipping substantially destroyed, that it takes her all energy and determination to revive her local industry and recondition trade in the altered situation. She has now very little of those "invisible exports" which come to her as interest on loans to foreign countries, profits of capital investment abroad, shipping freights, Banking Commissions and insurance premia, not to mention the payment for the services of her nationals in foreign countries, which formed such a substantial portion of the "Home Charges" from India before 1947. Notwithstanding all efforts at increasing production, Britain is now a heavily deficit country in so far as the balance of international account is concerned. She has a very large averse balance every year against her. For a time this was got over by the Anglo-American Loan of nearly £1000 million. But that loan was exhausted much sooner than was anticipated, and the problem of making her exports pay for her imports became more acute than ever.

These countries, consequently, which are linked with and dependent upon sterling have reflected difficulties, even if their own economy may be intrinsically sound enough to return rapidly to normalcy after the war. In this country, as remarked already, the situation has radically changed since the partition owing to unexpected problems, like food shortage, shortage of raw materials, and the growing demand for consumer and capital goods. Imports on all these accounts are intensely needed. The exportable surplus, on the other hand, has suffered heavily on account of the partition, which has taken away considerable areas producing food and raw materials. The staple Indian exports, jute and cotton, supply of foodstuffs like wheat or other raw materials, has thus suffered. Tea remains the only principal export yet unaffected. The manufactured goods, which are increasing in volume are, however, still insufficient to meet local demand. Their figuring, therefore, on the export side is limited.

Moreover, the devaluation of the pound has resulted in a further deterioration of the foreign trade of India, thus largely reducing the importance of shipping an earner of foreign exchange.

PART III

State aid and Protection to National Shipping in other Countries

The First World War, with its tale of sinking of ships and the plight of some of the neutral countries who depended for their supplies on foreign shipping, brought home to the Government of all important countries the supreme importance of an adequate national mercantile marine. We have out-lined elsewhere the principal measures taken by some of the leading maritime nations to develop their own merchant shipping in the inter-war period.

It is true that during 1914-18 sinking of ships was on a very large scale; but the war-expanded ship-building industry was capable of production far exceeding normal peace-time requirements. The story of shipping of the period that followed between the signing of the Treaty of Versailles in 1919 and the German invasion of Poland in 1939, was, therefore, one of an enormous increase in world tonnage. The excessive tonnage was mainly due to the war and its consequences and nationalist policies.

The Second World War has once again proved that the command of the sea is the most supreme issue of the War. From 1941 onwards, a cry of agony went forth from Britain and the United Nations and the Allies. They wanted ships, more ships and still more ships to win the war. The colossal production of over 35 million tons by the American Shipyards during 1940-45 will go down in history as one of the most magnificent feats of American enterprise, organisation and efficiency in ship-building. The result was that American tonnage on the cessation of hostilities, in August 1945, constituted 51 per cent. of the total world tonnage, as compared with her share of 13.6 per cent. before the outbreak of war in 1939. According to the weekly shipping journal "Fairplay" dated the 5th July 1945, the American merchant fleet in aid 1945 comprised more than 2,600 Liberty Ships, some 460 'Victory' ships, 156 C-1's, 288-C-2's, 133-C-3's and 84-C-4's, close to 650 tankers 300 Coastal vessels, 55 large combination and special types capable of entering or being converted to commercial use.

Such mercantile marine, however, cannot flourish and serve the purpose it is meant to, unless there is sufficient carrying business assured to it. In the days when local sentiment was at its height for developing a country's untried resources by every means at the disposal of that country, in the face of incessant and ruthless competition or of opposition from vested foreign interests, adequate national shipping also becomes a potent engine of such aid to national industry. By appropriate freight rates and other devices, a nation's own shipping can help to protect, safeguard and stimulate local industry, which, in the absence of such direct or indirect aid, may not be able to make headway against ruthless competition from more developed, better organized, and long established foreign enterprise of the same kind.

The recognition of all these facets or functions of an adequate and sufficient national mercantile marine, owned, manned and controlled by the nationals of the country concerned has been accepted from time immemorial, wherever national economy has been properly organized and directed to predetermined ends.

Increasing attention has been paid in recent times by many a statesman to the development of this, the mainstay of the country's trade and industry, the right arm of its national defence, and most potent instrument of implementing in a great measure its economic policy, particularly in relation to international trade.

U.S.A.

We have plenty of recent and modern examples of this policy. Without going to ancient Rome or medieval Italy or Spain for precedents, we can find eminent authority for all the points made above in the policies and measures of modern nations, even those who insist on the Freedom of Movement as a

cardinal item in the fundamental rights of civilised and trading humanity. The United States, for example which speaks increasingly in the world's council of the Right to Freedom of trade and movement and endeavours to secure such freedom by means of multilateral treaties and international organizations, like that on Trade under the Havana Charter, has formally declared, in its Merchant Marine Act of 1936, that :

> "It is necessary for the national defence and development of its foreign and domestic commerce that the United States shall have a merchant marine ;
>
> (a) sufficient to carry its domestic water-borne commerce, and a substantial portion of the water-borne export and import foreign commerce of the United States, and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times ;
>
> (b) capable of serving as a naval and military auxiliary in time of war or national emergency ;
>
> (c) owned and operated under the United States flag by citizens of the United States in so far as may be practicable ; and
>
> (d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States, and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine."

Let us cast a brief glance at the history of this industry in the U.S.A. Before the first World War, the United States Mercantile Marine was confined to service on the inland lakes and rivers. It fell even short of the minimum requirements for serving as naval auxiliary in the event of war, not only to keep open the trade routes, ensure supplies and convoy carriers of indispensable munitions, food or other requirements to maintain the civil life in the country. America, however, was not so dependent on foreign commerce to maintain the national economy in times of war as Britain was ; and so her neglect of this item in her national economy continued until this heavy handicap was discovered in the World War of 1914-18.

The first remedial action then taken was the Shipping Act of 1916, which established a United States Shipping Board for the purpose of creating and developing a naval auxiliary and reserve, and a merchant marine, as well as regulating sea transport. The United States shipping Board had an Emergency Fleet Corporation with a capital of $50 million, incorporated for the purchase, construction, equipment, charter, etc., of merchant vessels in the commerce of the United States. The Board was originally intended as a regulatory and advisory body ; but when the United States entered into the war the Board took up the operation, and later the liquidation, of a fleet of merchant ships acquired for war purposes. The Jones Act maintained the United States Shipping Board and transferred to it all Government-owned vessels.

In 1926 the Shipping Board reported to the United States Senate their conviction that, without additional legislation for direct or indirect Federal aid, a privately owned mercantile marine could not be established. A new Merchant Marine Act, known as the Jones-White Act of 1928 opened the way for further aid to American Shipping operators. In March 1930 provision was made to increase the existing main subsidy of $659 thousand paid to the United States Lines to $3.6 million. Some thirty-four mail contracts opened or concluded in 1928 amounting to $17.4 millions brought the total yearly payments to private operators to $21 million.

The entire shipping policy was overhauled by the Roosevelt Administration, and every endeavour was made in the Merchant Marine Act of 1936 to rationalise the mail subsidy system. The basic policy of that Act has already been quoted above. The Act dissolved the Shipping Board Merchant Fleet

Corporation, and created the United States Maritime Commission to study, perfect and adopt a long-range programme of replacements and additions to the American mercantile marine, so as to create an adequate and well balanced merchant fleet.

This Commission was also empowered to regulate the future of the American shipping industry. It was authorised to grant substantial differential construction subsidy for the building of new vessels in America, and differential operating subsidy for enabling the American citizen to run their ships in the foreign commerce of the United States. This means that even if a ship is built in the United States to the order of a foreign Ship-owner, the differential subsidy will be payable to make good to the American builder the difference in cost of constructing in America, and in any other country where the ship would otherwise have been built. The basic idea of such provision is to enable the ship-building industry to continue despite the much higher cost of construction in the States; and at the same time enable it to compete on equal terms with the foreign builders.

The same applies to the Subsidy in respect of operating costs, which helps the shipping industry as such to continue in a competitive world, despite the higher U.S. costs of operation. This is not sheer waste in an over-rich land. It is the result of a deliberate, calculated long-range policy of keeping vital industries alive in the States, without impairing American standards, so that in the days of need it may safeguard the country's very existence.

The differential subsidy for operation from 1st July, 1937 to 31st October, 1938 cost the U.S. over 12 million dollars. In 1937 the Commission submitted a report, known as the "Economic Survey of the American Merchant Marine". According to the report of the Commission the expenditure of public funds to maintain a foreign-going fleet could be justified only on two grounds :

(1) the importance of shipping as a factor in foreign commerce ; and

(2) the relationship between merchant vessels and national defence.

The survey disclosed that there were between 12 and 13 million deadweight tons of ocean-going shipping in the American merchant marine at that time. When the United States entered the War, the fleet's capacity was about 11 million tons. The Maritime Commission had, however, inaugurated, in 1937, a long range programme to build 500 vessels in the ensuing decade. This programme was first doubled during the war and was subsequently increased to building a colossal tonnage of ships in the States. According to the report of the Maritime Commission for the period ended June 30, 1945, 5,377 vessels of a deadweight tonnage of over 52 million tons were constructed during the war. This unprecedented output of new ships at the cost of the State is the most powerful weapon, which the United States has got to enable its shipping to attain a dominant place in the carriage of the world trade in the future.

An important American publication has laid down that :—

> "International Shipping is rooted in the necessity for large-scale exchange of basic commodities between the peoples of the earth; passenger travel may be curtailed without serious national consequences; interference with the movement of overseas mails may now be mitigated by cable and radio communication, and air transport; stoppage of the transborder movement of finished products would react unfavourable on both the exporting and the importing country; but stoppage of the world flow of basic commodities would have a paralysing effect on the progress of nations. Without cargo carries on the world trade routes, the Asiatic would not burn American kerosene in his lamp; nor distant markets consume American wheat; the European could not so cheaply cultivate intensively on unproductive soil; the American could not so cheaply produce a large volume of high grade steel;

the Briton would lack his supply of fresh New Zealand mutton and Argentine beaf. It is the carrier of the basic commodities in large quantities, and at low rates which renders possible the concentration of materials, machines and men at strategic points, where this combination may more efficiently produce an industrial product.

Bounty for construction of Ships

(a) America paid Construction Differential subsidies from 1916 to 1947 ... ... $ 307,653,335
The difference between the cost of constructing a vessel in America and the cost of building a similar vessel abroad was made good by the Government of America to the American ship-building Yards.

(b) They have at present under consideration a bill providing for grant of construction subsidies to all United States vessels intended for any foreign trade including the tramp trade. At present this benefit is available only to ships plying on specified trade routes.

(c) According to a press report published in Llyod's List dated 23-8-48, the American Government have agreed to bear 45 per cent. of the cost of construction of two liners proposed to be built by the American Export Lines, each of which is estimated to cost about 24 million dollars ... ...

Loans to Shipbuilders

1916-46 : Loans given from 1916 to 1946 (30th June) to the American Ship-Building industry totalled $ 483,650,736.

It is interesting to note the conditions insisted upon by the most advanced, still progressive, and highly industrialised nation in the world, which has no competitor to fear, no rival to reckon with. It solemnly declares by law its fundamental policy in this regard to be the building of an efficient and sufficient mercantile marine, which must be constructed in the country, and owned as well as worked by its citizens only. Its aim is to carry all its local water-borne trade, whether on its great inland lakes and mighty rivers, or along the indented coasts of that immense country. At the same time it wants to take a goodly share in the foreign commerce, both imports and exports. For all these purposes, the American shipping must be adequate in tonnage and variety to show the American flag on all the ocean highways of the world at all times. It must, at the same time, be sufficient to serve the purpose of a naval auxiliary in war, or during a national emergency. The merchant fleet of the richest country in the world must be the best equipped for a most efficient service, the safest in all weathers and conditions; the most varied in type and size, so as to meet the requirements of every class of business or service it has to do.

The United States had a considerable mercantile marine in the days before the invention of steam as motive power, and substitution of iron for wood as building materials. The famous Clippers which made such astoundingly quick voyages in those days for carrying valuable cargo, like tea, from China to Europe and America, were owned and manned as much by American as by the British seamen. But with the advent of steam as the driving force, and the increasing use of steel in ship-building. America gradually fell out of the overseas carriage of goods and passengers and left that business more and more to the United Kingdom. There was enough opportunity for exploiting the immense natural resources of that vast country for all the available talent, capital and enterprise of America. This particular field was, therefore, neglected in the latter part of the last century, which accordingly fell more and more to British enterprise to monopolise.

America produced these ships at a time of vital need; and the United Nations could never be too grateful for this vast aid to the war effort. But after the war and its exhausting demands had ended, the surviving tonnage became too much for the available trade all over the world. Vast tracts had been devastated; and still more considerable areas exhausted by the War. They had little or nothing to trade in until American aid in one form or another came to rehabilitate them, to restore their industry, revivify their agriculture and restore their trade.

The problem of the disposal of the surplus war-built American tonnage was, therefore, a serious one, not only for U.S.A. but for all the maritime nations of the world. For it would be a poor recompense to America's wonderful contribution to the means of victory, if the oceans of the world were swamped with tonnage which cannot earn remunerative rates, and which would depress the world shipping industry for years to come. Wisely, therefore, did the American Government decide to sell a part of this tonnage to needy allies and to lay up the rest.

British Shipping and its Development

Britain came to dominate, between 1860 and 1914, all the oceans of the world showing her flag in all ports in all the maritime countries of the world, and crowded all the trade routes. England had become the universal ocean-carrier ship-builder and ship-owner long before the United States of America had come into existence, and could claim any share in that business. Spain in the sixteenth, Holland in the seventeenth and France in the eighteenth centuries were Britain's principal rivals, who, adopted the same methods, weapons and devices to dominate the world's trade routes. One by one they were all beaten by Britain, though not wholly driven out of the ocean high-ways. Germany, Italy and Japan were more recent rivals, who also used the same tactics. They, too have had to yield before the ancient mistress of the seas. The United States have now entered the ring, thanks mainly to the lessons rammed down by the two world wars of this century, and the new dangers of the deep modern mercantile marine has to cope with in times of war. America owns more than half the total world tonnage today; and Britain who was the leading ship-owner of the world even upto 1939, has fallen a far distant second. But the old Sea Lion still shows vigour and vitality enough to make up all her immense war losses in less than 4 years as the table on page 15 shows. And it is not beyond the range of possibility that she may soon regain her centuries old place in the carrying trade of the world.

This premier position of Britain has not been built up without the aid of a very rigorous code of Navigation Laws, which even in the heyday of Free Trade economy, were not condemned even by the father of that school—Adam Smith—nor were they regarded as out of place and in way a hindrance to the trade. Under these laws, passed ince the days of Cromwell all trade to and from British Colonies and Dependencies, in the East as well as the West, was to be carried in British bottom, and none but British nationals was allowed to run any British ship, in part or as a whole. This last provision survives even to this day in the Merchant Shipping Act of Britain and animates the spirit of British shipping enterprise as well as her national policy relating thereto, notwithstanding all professions of Freedom of Trade and the claims of the younger members of the Commonwealth to share in this most profitable business of the ocean carrier. One example would suffice to show how profitable that business was. Before the World Depression of 1930-35, Britain used to derive something like £125 million per annum her "invisible exports" on account of her shipping service which paid for more than half the excess imports in those days.

Once, however, England had obtained the virtual mastery of shipping business, it was easy for English politicians and economists to regard such aids and stimulus as her own Navigation Laws had provided in the past, to be unnecessary for her and objectionable if imitated by others. They urged their new wisdom of freedom in trade upon others, some of which being

helpless had no alternative but to accept and follow the lead of Free Trade England. In effect, however, it tended more and more to rivet the bonds of British Shipping upon the other trading countries of the world into the British hands. The bounties and subsidies she had given openly or secretly to her ship-builders and ship-owners. The rigidly close monopoly of her own coastal trade and the effective monopoly of the carrying trade to and from her colonies and more helpless Asian or American countries had done their work. But if new-comers in the field tried the same policy, Britain labelled them as unfair discrimination, or uneconomic hindrance to trade. Her imperialist domination was so widespread, her political influence so vast, her naval might so formidable, that the more backward countries had to profess agreement with the fashionable British philosophy, and conform to the Free Trade regime, even where it meant a heavy, invisible, but not less real, tribute to Britain.

According to a report made by a Board of Trade Committee in 1918, before World War I, half of the world's trade was carried in British ocean-going ships. This included nine-tenths of the trade between member countries of the British Commonwealth as well as the Colonies and Dependencies of Britain, to and fro; over three-fifths of the trade between the Empire and foreign countries; and nearly one-third of the trade between foreign ports to and fro. This unequal and inequitable distribution of the carrying trade in the world was incompatible with the growing realisation in other maritime countries of their own dues in this field. They perceived not only the immense tribute paid by them every year to the foreign ship-owners for a service which they could not well do to themselves; but they understood also the grave danger to their national security and continued independence, which the lack of an adequate, efficient and economic mercantile marine of their own involved. The role of the merchant navy in times of war was fast beginning to be fully recognised even under the changed conditions of increasing specialisation in construction and equipment, in function and operation, between merchant ships and fighting fleets. Every country, therefore, which had a sea-board of its own and overseas trade, or desired to maintain its own independence, became more and more anxious, between 1914 and 1939 to build up its own merchant navy, not only to serve its own trade and industry but also to provide an effective means of national defence, and guarantee of national independence.

This new consciousness of their duties and responsibility led many countries which had considerable coast line of their own, and which provided a respectable portion of the world trade, to adopt various measures for building up their own merchant marine. On this development of what was styled "economic nationalism", Britain took alarm, though there was no justification for her or other shipowning countries to take exception to such policy. For the monopoly by one or two maritime peoples of the entire shipping business of the world cannot, and will not, promote real international co-operation, which the United Nations Organization and the International Trade Organization, built up by the former, desire to increase. The building up, moreover, of local industry to its full maximum potential in all backward or under-developed countries, which had become aware of their own economic possibilities and had any overseas commerce of their own, cannot but be impeded, if not prevented altogether, if they were not to have the fullest freedom to adopt all appropriate tried and tested measures and methods to develop their transport service for carriage of goods and passengers along their coasts, their rivers and lakes and overseas.

Notwithstanding Britain's universal domination in Shipping before 1914, built up by centuries of active protection and encouragement to set up a gigantic merchant fleet of her own, she has never relaxed her vigilance in providing every form of protection and safeguard every shape of aid and encouragement that her shipping interest require. The two World Wars, which decimated European manhood, undermined European economy, and affected the entire trade of the world in this country, found Britain suffering substantially from heavy losses due to submarine warfare. This, in turn, reacted on the volume of her trade and her position in the international balance of payments.

It only led to an intensive policy in essence and energetic programme which has come down to her from Cromwellian days. The Navigation Laws of the XVII century may have been abolished; the Colonial System of the XVIII century all but destroyed over the greater part of the earth. But the spirit that moved Cromwell or Colvert is not dead. Even to day no non-Britisher can own a part or whole of a British ship; nor claim a share of the subsidies or loans that British ship-builders enjoy.

So high is the recognition given to the importance of a merchant marine and its basic industry in peace as well as in war, that even under the stress of the last war, the British Government considered; "The Merchant Navy is a vital national interest and will remain so in peace time as it is in war". On another occasion British Ministers declared;

> "Our Merchant Navy must be at least as large as before the War, and so much larger as British enterprise and efficiency can make it, in a world from which we hope artificial obstacles to trade will have been removed..........."

> "This country must—I ask the Committee to observe the word "must"—continue to serve the world with a large and efficient merchant marine. The word "must" is fundamental".

With this outlook and these ideals, with such objectives and traditions, with her known tenacity and inflexible determination, Britain has been able to make up, within four years of the end of World War II, the bulk of the losses she had suffered between 1939 and 1945 from unrestricted submarinism of the Hitler days.

While at the height of her prosperity, Britain used to levy an invisible tribute upon the world at large, for the shipping service she provided in the carriage of goods and passengers across the seas all over the world, of something like £100 million to £150 million per annum. This, though steadily declining since World War I, nevertheless still forms an important credit item in her international balance of accounts even today. It was this vital necessity which compelled British shipowners to decline even to consider, in the Shipowners' Conference the two Governments had helped to call together in 1946, India's target of having her own mercantile marine, in five or seven years, of some 2 million tons; and the ways and means of her acquiring the same. One of the immediate causes of Britain's weakening economy during the Great Depression of the early thirties of this century was the sharp shrinkage in her freight receipts from overseas carrying trade, mainly because of other countries having in the meanwhile built up their own fleets. That factor has persisted ever since, and grown in recent years.

Britain, however, still maintains her resolve to regain as good a slice of this business as she can manage, as the following summary of measures adopted by her in the present century indicate.

It has often been claimed on behalf of the British interests that they do not ask for State help for developing their national shipping. In actual fact, however, the Navigation Laws and the imposition of discriminatory tariff on shipping, owned elsewhere than in Britain, provided British shipping with the most effective and prolonged protection that any industry can desire in the early period of its growth.

Even after that shipping had grown to gigantic scale, best riding like a Colossus the entire world shipping, Britain never relaxed the basic principle of her mercantile marine ownership law; nor relaxed the almost complete reservation of her own coastwise carrying trade in the slightest degree.

Her powerful shipping interests, at the height of their power, evolved and applied ways and means for maintaining effectively their all but monopolistic hold on the carrying trade of the colonial, dependent and backward countries. The unrestricted and exclusive patronage extended to them by the Government of India, for example at the behest of Whitehall in the carriage of all Indian

trade, stores, troops and mails for over a century enabled British shipping to expand its activities to build up a vast net-work of custom and connection, and pile up immense financial resources which would be and were used ruthlessly to destroy any threat of competition. For instance, British shipowners demanded in 1918, the reservation of the entire Inter-Imperial trade to British ships only ; they even claimed, during recent years, that the bargaining power of India in regard to any trade agreement she may conclude with a foreign country should be utilised not for the promotion of Indian shipping but for consolidating the position of British shipping which had been undermined by the War.

Further, substantial financial assistance was given by the State to British shipping during the period between the two World Wars of this century, as shown below.

Under the Trade Facilities Act up to the end of 1929, a sum of about £29 millions had been granted for shipbuilding in Britain, whether for British or for foreign use. Some of the guarantees were on account of Norwegian, Italian Brazilian and Rumanian ships being constructed in Great Britain, which were potential competitors in the world trade. In addition, a further £11 millions were guaranteed under Northern Ireland Legislation. A merger between the Cunard and the White Star Companies was provided for in an agreement of 1933 between the two Companies and the Treasury. With a view to ensuring the completion of the "Queen Mary" by the new combine, the Treasury undertook to make advances not exceeding £3 millions secured by issues of debenture stock. It also undertook to promote legislation that would *inter alia*, enable the Government to advance to the Merger Company the cost (not exceeding £5 millions) of a new ship or ships, and to secure to the company in respect of all ships concerned advantages identical with those under the Cunard Insurance Agreement of 1930.

The Agreement of 1933 was implemented by an Act of 1934, which empowered the Treasury to advance to the Cunard-White Star Merger sums upto £9.5 millions for purposes of constructing one or more large capital ships for the North Atlantic shipping trade, and of providing working capital for the merger company.

These ships were to serve as auxiliary cruisers in times of war and in World War II they effectually did so. The aid to the Royal Navy was both substantial and invaluable.

In order to help British Tramp Shipping, the British Government decided that a subsidy, not exceeding £2 millions, should be granted under the British Shipping (Assistance) Act of 1935 for that year, but was extended up to 1936 and again to 1937 when it lapsed.

In 1939, a Bill, restoring the subsidy for five years from 1st January 1940, at a rate not exceeding £2.75 millions per annum, was introduced. It was, however, not proceeded with owing to the outbreak of war. Indirect Government assistance to shipping was provided for in the British Shipping (Assistance) Bill of 1939, *e.g.*, facilities for the building of general trading vessels by means of loans not exceeding £10 millions, and by grants not exceeding £500,000 a year for five years. Financial help exceeding £320,000 was actually given for the building of ships in 1939-40 ; and it was only the outbreak of the war that stopped the free flow of this direct cash aid. Liner Services were to be helped to meet subsidised foreign competition by grants, loans, guarantees, etc., upto a maximum of £10 millions.

Besides this financial assistance, the President of the Board of Trade announced that

> "The Government will continue to take all possible steps to promote the interests of British Shipping in connection with trade negotiations and other discussions with foreign Governments".

In a Memorandum issued on the 6th August 1940 in London, it was announced by the British Government that

"The progress of legislation was interrupted by the outbreak of the war. The necessity, however, of maintaining the British Mercantile Marine in adequate strength, and in a position of full competitive efficiency is recognised, no less strongly by the Government today. They will, therefore, keep this question constantly in mind as one which will be necessary to ask Parliament to deal with in due course".

The measures outlined above are summarised below in concrete terms :—

GREAT BRITAIN.

SECTION "A"—BOUNTY FOR CONSTRUCTION OF SHIPS:

Great Britain granted up to July 1940, under the British Shipping Assistance Bill (1939) subsidies for building ships to the extent of £320,000

SECTION "B"—BOUNTY FOR OPERATION OR NAVIGATION OF SHIPS:

(a) Apart from mail subventions which helped the shipowners in reducing their captial cost, Great Britain paid by way of shipping subsidy i.e., out and out financial assistance in 1940/41 . £320,000

(b) Subsidy to Cunard Steamship Co. (1924-28) £333,698

(c) Subsidies granted to Tramp Shipping under British Shipping Assistance Act, 1935 and British Shipping Continuance of Subsidy Act, 1936 . . . . £4,002,183

(d) Financial assistance as subsidy was provided for Tramp Shipping under the British Shipping Assistance Bill (1939) to the tune of . £13,750,000

(e) Assistance for Liner Shipping to protect the shipping against subsidised foreign shipping was also provided under the British Assistance Bill, 1939, for £10,000,000

(f) Pending restoration of more normal competitive conditions Government assistance is being given to certain of the Coasting Lines since March 1946, in the national interest, to maintain in operation essential coastal services, to the extent of . . . . £41, 500 per month
(Lloyd's List dated 29-6-1948)

(g) Assistance given to David Mac Brayne Ltd., between June 1947 to end of 1948 " for mintaining steamship services between the Western Highlands and Islands " to the extent of . . . . £14,500 per month
(Lloyd's List dated 29-6-1948)

SECTION "C"—LOANS TO SHIPOWNERS AND SHIPBUILDERS:

I. Loans to Shipowners :

(a) *1903* :

The Admiralty made annual subventions to the Cunard Company operation of the two ships " LUSITANIA " and " MAURETANIA" amounting to £150,000

(b) *1921/26* :

Guaranteed by British Treasury under the Trade Facilities Acts, 1921-26 (these loans were granted both to Shipbuilders as well as Shipowners) £23,432,480

(c) 1922/28 :

Loans guaranteed by the Govt. of North Ireland under the Loan Guarantees Act 1922/28 (Loans guaranteed both to shipbuilders as well as shipowners) £11,433,900

"The guarantee simply purt the credit of the State behind these schemes which the Advisory Committee approved.

"A great proportion of the Guarantees given by the Government for shipbuilding was in respect of the "replacement of high class liner tonnage.

(d) 1934 :

The Treasury was authorised to advance from time to time on such terms as they think fit to the Cunard Steamship Co., Ltd., such sums not exceeding £9,500,000 (Help under the North Atlantic Shipping Act, 1934). The sums actually advanced under this loan arrangement amounted to £7,950,000

(e) *1939*:

The Board of Trade was further authorised to purchase ships registered in U. K. and create a Merchant Ship Reserve and spend with the consent of the Treasury upto £2,000,000

II. Loans to shipbuilders:

(a) *1903*:

Two major loan arrangements were made by Great Britain before the first World War. They were given for the construction of "LUSITANIA" and "MAURETANIA". These steamers would be faster than any of the ships plying at that time. The amount of the loan was repayable in 20 years £2,600,000

(b) *1935*:

Loans sanctioned as help under Scrap and Building Scheme under Part II—British Shipping Assistance Act (1935) . . £1,000,000

(c) *1939*:

The Board of Trade was authorised to grant Shipbuilding Loan upto £10,000,000

SECTION "D"—SPECIAL FACILITIES AND OTHER FORMS OF ASSISTANCE.

(a) *Banning of certain ships from entering British waters*:

(1) As a result of the Report of the select Committee of the House of Commons with Sir Robert Peel as Chairman, on "Issues relating to the East India Ship-building", Parliament laid down in Act 55, George III, Chapter CXVI, Section 6, that Indian sailors even though they were the subject of His Majesty of England shall not be deemed to be "British Mariners" and any ship even though British, which had not on board three-fourths of its crew of British mariners, or seven British mariners per 100 registered tons, would be liable to forfeiture, and that no ship was to enter the Port of London whose master was not a British mariner.

This is how British shipbuilding industry was protected and Indian ships were banned by Parliament from entering British waters.

(2) Act, 34, George II, Chapter 68, of Great Britain repeated the warning contained in 12 Carolina that only British built ships should import goods from South and East of the Cape of Good Hope.

(b) *Discriminatory Duty Laws*:

Great Britain, through its political influence in India, compelled Fort William in Bengal in 1811, Fort St. George in Madras, in 1812 and Fort St. David in Bombay in 1913 to promulgate separate rates of import duties on goods carried by British and non-British bottoms. The rate of import duty to be charged on goods carried by non-British bottoms was fixed at 15 per cent. whereas in the case of British bottoms it was fixed @7½ per cent.

This is how the British Shipbuilding Industry was encouraged at the cost of Indian Shipbuilding Industry. These discriminating rates continued right upto 1875.

(c) *Help under the Cunard Insurance Agreement Act* (1930)

Out of the amount of £4,800,000 for which the "Queen Mary" was insured, the risk accepted by the Board of Trade was

for the years ending May 12, 1938	... ...	£1,630,000
for the year ending May 12, 1939	... ...	£1,584,000
for the year ending May 12, 1940	... ...	£1,899,150

without the help of the Board of Trade, the vessel could not have been insured. Although, the Cunard insurance Fund totalled nearly £100,000 in 1939 and although that constituted very little security in itself for a possible total loss of nearly £2,000,000 it is to be remembered that the "whole resources of the Nation are behind the Fund itself".

These measures had become necessary, because rivals had grown in recent years out of Allies in the last War. A great mercantile marine of her own, greater than those of all others combined, has been built up by the United States, now being nearly three times the total strength of the British Merchant Navy. But even so, the United States has been unable to prevent the growth of other mercantile marines, in keen competition with her own. Not only the United Kingdom but all the members of the British Commonwelth have developed considerable ambitions in this direction. Canada and Australia are sparing no pains to build up their own overseas shipping and shipbuilding industry; and India must not fall out of the race. The following summary of the policy and measures adopted by some of them is sufficient to show this tendency in modern world economy.

This model and precedent of Britain did not remain uncopied by others. Other countries of the world, like France, Germany, Italy or Japan, had also entered the field from the beginning of this century. France was, of course, an old maritime nation since the days of Sully and Colbert. But others had managed to acquire a growing proportion of the world's carrying trade. Germany and Japan are now practically out of the ring after their defeat in the World War II. But instead other countries, taking advantage of the changed position, are developing their own merchant fleet, with their own enterprise even as Britain or America have done.

FRANCE.

Bounty for Construction of Ships.

The history of France's efforts to build up a powerful mercantile marine of her own is almost as old as that of Britain. Sully, the great Minister of Henry IV was the first active helper of French shipping, which in those days could serve indifferently for commerce as well as for war, for piracy as well as for policing the seas. Colbert followed in his footsteps and in those of Cromwell and made the French marine no less formidable than the Dutch or the British. Without going deep into history, however, we may summarise the effect of recent measures adopted by that country to maintain and develop her own mercantile marine in recent years.

(*a*) France paid from 1881 to 1920 . . . . . . Franks 245,111,856 = \$46,854,541

The construction bounties varied from 60 francs to 172·50 francs per gross ton . . . .

(*b*) France paid between 1907 and 1930 navigation bounties Franc £584,575,494 = \$108,436,700

"The purpose of both construction and navigation bounties was to place French ship-builders and ship-owners on a parity with those of other nations" . . . .

"They (the construction bounties) were paid directly to the builders in connection with the construction of vessels for any account, foreign or domestic".

"The extra price paid by the purchaserof French-built vessels was to be absorbed by the navigation bounties. The French ship-owner was to pay more than world-market prices for French-built vessels and the Government was to compensate him for the differential, based upon the operation of the vessel".

Loans to shipbuilders

(*a*) "Facilities to enable French Shipowners to build new vessels were made available under a law of 1928 by which the Credit Foncier was understood to advance annually for five years" . . Frs. 200,000,0000

"The Government guaranteed the loan and reimbursed the Credit Foncier for the loss of interest, but the Government's obligations on account of interest charges were limited to Francs six million each year. Repayment was to be made with in 20 years".

"Under Legislation passed in 1929 and 1931, the maximum amount available for loans was increased to 25 million francs annually, and the minimum rate of interest was reduced to 3 per cent in the case of mail vessels and 2 per cent in the case of other vessels".

(b) "In 1933 the law of 1928 was extended for four years with the proviso that the total of loans was not to exceed 125 million francs in one year. The total annual Government grant towards interest was not to exceed four million francs. During the period August 1928 to December 1936, 88 loans were granted under the schemes described above totalling". . . . . . . Frs. 464,000,000

(c) "The law of 1928 was extended for a further period of three years, but loans were not to exceed per year" . . . . . Frs. 110,000,000

"In May 1938, the annual Government liability in respect of interest was raised from four million to twenty million francs".

NAVIGATION BOUNTIES

The first French law for the encouragement of mercantile marine was enacted in 1881. The payments made thereunder were increased 12 years later. Moreover by the law of 1902 applicable to iron and steel steamers engaged in foreign trade were provided with equipment bounties at the following rates per day in commission, with a maximum of 300 days per year.

"Five Centimes per net ton up to 2,000 tons, four centimes for each additional ton up to 3,000 tons, three centimes for each additional ton up to 4,000 tons and 2 centimes for each additional ton up to 5,000 tons. This law was further modified in 1906 and 1912.

In summing up this law, Mr. Jones says " the Equipment bounties of 1906 vary with the tonnage of the vessel, days in commission, character of propelling power whether sail on steam, speed, quantity of cargo and average daily run. They are paid for the entire time the ship is in commission and are not limited to 300 days per year as was the case under the law of 1902 ".

GERMANY.

Between the foundation of the new Deutscher Reisch in 1871 and the outbreak of World War I in 1914, Germany made giant strides in every direction of economic development by an intensive policy of scientific protection and assistance to all industries and services. Shipping and shipbuilding industries were among the foremost of these developments. *The Nord Deutscher* and the *Hamburg America Linie* challenged Britain's domination in the high seas trade of the world, in the Eastern as well as the Western Hemispheres. Their ships built in the ancient shipyards of Bremen, Hamburg, Cuxhaven Stettin could match in size and speed, in economy and efficiency, in comfort and luxury, any built in Britain, whether for cargo or passenger service.

In the War of 1914-19 Germany lost, and paid the penalty of defeat by a practical destruction of her navy and the surrender of her mercantile marine. Three years after that war, the German Government made an agreement with shipowners in 1921-22 to replace, by the aid of State subsidy, one-third of the tonnage of the Mercantile Marine surrendered under the Treaty of Versailles. The original provision of 12 milliard marks was increased by *milliard* marks in 1922, owing to the depreciation of the Mark. In 1925 the Government authorised a loan fund of 45 million Reisch marks for new construction, which was exhausted by October 1928.

Subsequent direct financial assistance upto 1932 consisted of a loan of 18 million marks in 1926; and export credit scheme in 1930 for the building of ships for foreign account; a Government guarantee in 1932 of a loan of 20 million marks to German shipowners; a further guaranteed loan in 1932 of 77 million marks, and a grant in 1932 of 12 million marks in loans to subsidise the scrapping of some obsolete vessels. In 1933 loans of upto 45 million marks were authorised for assistance to shipping, and these were followed in the same year by a further grant of 20 million marks.

Since 1933 operating subsidies were paid by the German Government on the basis of 3 pfennings per gross ton per day, *plus* 20 per cent. of the wages and salaries of the crew, subject to a maximum of 7.5 marks per gross ton in six months. This was roughly equivalent to 20 or 25 per cent. of the total operating cost in the case of a vessel of 6 thousand tons. In 1934 it was stated officially that German shipping subsidies were necessary, and would be continued so long as German shipping remained at a disadvantage with its competitors on the freight market in regard to foreign exchange rates,

Apart from the direct subsidies mentioned above German Government assistance included a number of indirect ways of helping German shipping, *e.g.* placing of orders through a financial holding company for 18,000 ton passenger liners for the Far East service; measures to enable German shipbuilding yards to quote competitive prices, Government making up the difference between British quotations and the lowest economic price that the German yards could quote.

These measures are summarised below in concrete terms :—

Loans to Shipowners and Shipbuilders.

(*a*) In the early part of 1925, a Loan Fund of — Marks 50,000,000 = $11,900,000

to be made available for new construction under certain conditions was raised. The Basis and the operation of the loan were somewhat after the manner of the British Trade Facilities Act, the main purpose being to decrease unemployment in the German shipbuilding industry. Under this plan, loans were granted up to 50% of the construction price agreed upon with the shipyard, the remainder being supplied by the builder or the shipowner as the case might be.

(*b*) " As the Government credit of 50 million marks placed at the disposal of shipping firms early in 1925 was exhausted in October 1926, the Government produced a further scheme of financial assistance under which an annual amount of . . . . Marks 3,000,000 = $710,000

was to be provided during the period of six years ".

Special Facilties and other forms of Assistance

(*a*) *Rehabilitation Fund*:

A Bill introduced in the Reichstag on July, 11,1917 and enacted on November 7, 1917, provided funds to enable German shipowners to replace vessels that had been destroyed by the enemy action and to reimburse them for expenses incurred by vessels that were in foreign ports.

(*b*) *Reconstruction Fund*:

" In 1921 German shipowners requested the sum of from Government with which to replace the fleets that had been turned over to the Allies or had been lost. 37,000,000,000 Marks were appropriated for this purpose ". — Marks 37,000,000,000

" In 1921 and 1922 German yards launched 437 ships of 1,084,000 d.w. tons so that in two years and upwards one-half of the 10-years programme had been met, although all this construction came under the plan ".

Loans to Shipbuilders.

JAPAN.

From 1868, a new age began in Japan. Government paid close attention to shipping problems. Japan's experience in her early military compaigns brought home to her the importance of maritime transport in war time. From 1897 to 1906 Government subsidies to shipbuilding averaged about 250 thousand yen per annum. From 1906 to 1916 this rose to 1.3 million yen.

Between 1914-15 and 1930-31 the total operating subsidies budgeted for fluctuated between 8.2 million yen and 13.9 million yen.

Credit facilities for shipowners and shipbuilding were usually accorded through special banks. The authorised maximum of advance by the Industrial Bank for shipbuilding, which was 5 million yen in 1930, was gradually increased unit it reached 30 million yen in 1936-37 and one hundred million yen in 1937-38. The Ministry of Finance undertook to pay upto 70 per cent. or any capital loss in case the loans were not repaid. The following concrete

summary of these measures would provide interesting and instructive illustration of what a State can do to help achieve rapid and intensive development in any branch of its national economy.

Bounty for Construction of Ships :

(*a*) "The Law of 1896 granted Japanese shipyards a bounty of 12 Yen ($5·98) per ton on vessels between 700 and 1,000 gross tons and 20 Yen ($9·96) per ton on vessles of 1,000 gross tons and upwards. In addition, a bounty of 5 Yen ($2·49) per horse power was granted on all engines constructed in Japan. The law stipulated that Japanese materials only should be used unless authority to use foreign materials was granted by the Minister of Communications."

"In the revision of 1909 construction counties were restricted to steel vessels of at least 1,000 gross tons, built in Japanese shipyards, and were based upon type of vessels. It varied from 14 Yen to 22 Yen per gross ton. The construction bounties granted from 1897 to 1907 came to . . . . Yen 22,657,195 = $11,283,283

"The construction bounties averaged 565,000 dollars annually during the history of this form of aid to ship-building, the years 1912 and 1913 were excepted. It continued right up to 1917".

(*b*) "Under its First Scrap and Build Scheme Japan built 31 new vessels of about 2,00,000 tons gross. The total Government subsidy came to . . . . Yen 11,000,000 = £650,000

at 1934 rates of exchange. One-fifth of the cost of the vessels was paid as pure subsidy. This was followed by the Second, Third and Fourth Scrap and Build Schemes. The result was that 48 fast vessels equivalent to more than four-fifths of the total number of Japanese vessels of over 4,000 tons gross and less than five years old were built with the aid of direct subsidy from the Japanese Government.

Under the Fourth Scheme which came into operation in 1937, it was provided for the subsidised construction of high class passenger and passenger-cargo liners of not less than 6,000 gross tons and of 19 knots speed at rates of subsidy approximating in some cases to half the building cost. It was proposed to spend a total of over . . . . Yen 50,000,000 or £3,000,000

at current rates of exchange of this scheme during the 18 years beginning with 1937-38.

Bounty for Operation or Navigation of Ships.

"The law of October 1, 1896, granted Navigation bounties to steel and iron ships owned exclusively by the Japanese subjects and plying between Japanese and foreign ports."

Navigation bounty payments from 1896 to 1899 came to . . Yen 13,133,440 = $ 6,504,451

"The Navigation Bounty changes provided by the new law of 1909 in effect combined the two formes types of bounty as given under the original law, namely, a fixed payment for specific route services and general navigation bounties for operation under certain conditions".

While the 1896 Act paid 25 yen per ton gross per 1,000 miles run by vessels of 1000 tons and of at least 10 knots speed, the Act of 1909 authorised payment of special subventions to Japanese lines operating in the European, Australian and American trades. The unit of subsidy was 50 yen per gross ton per 1,000 miles run, by a vessel of at least 3000 tons gross with a speed of at least 12 knots per hour and with an age not exceeding 15 years.

Direct aids to shipping.

(1) Subsidies (2) Postal subventions (3) Admiralty Subventions and (4) Fishing Bounties.

Indirect aids to shipping

(1) Reservation of Coastal traffic (2) Exemption from import duties on shipbuilding materials (3) loans to ship-owners (4) Preferential railway rates (5) Reimbursement of canal dues (6) Exemption from port dues and (7) Exemption from taxation.

II.—Loans to Shipbuilders.

(a) A Loan Fund of . . . . Yen 30,000,000 =£ 3,000,000

at the 1929/30 rate of exchange was made available for building of ships, but owing to world economic depression that followed, little use was made of this facility.

(b) "In addition to providing direct subsidies, the Japanese Government had always been ready to provide credit facilities for shipping and shipbuilding enterprises. The Government has made arrangements with the industrial Banks whereby Loans for shipbuilding were made at low rates of interest, the rate in mid-1937 being 3·7 per cent per annum."

"The Ministry of Finance, adds 1 per cent bringing the Banks receipts from interest on such loans up to 4·7 per cent. The Ministry also undertook to pay to the Bank upto 70 per cent of any capital cost in case loans were not repaid. The system was instituted in 1930 and the Bank had been authorised to make loans of this kind on certain conditions, upto a maximum of 100 million yen within four years from 1937-38. The loans may be made only in respect of the building of steel ships of 4,000 gross tons and over and of a speed of 13½ knots or over, but in exceptional cases may be made also in respect of building of cargo ships of 2,000 tons of over and a speed of 11 knots or over . . Yen 100,000,000

ITALY.

Italy with her dependence on imports for raw materials, her long coast line, and her situation as a transit country, could consider herself entitled to a flourishing mercantile marine. Against a lack of coal and of the ores from which steel could be made, she could set off an abundance of cheap labour. Before World War I, Italy had a system of subsidised contract services, and also navigation and construction bounties. In 1926, a new decree fixed subsidies for shipping services for periods varying from 20 to 25 years according to the importance of the service, the grand total for the period 1925-26 to 1945-46 being fixed at 3,205 million lire, equivalent at the then rate of exchange to some £25 millions. The amounts were increased by a further Act of 1928. From 1929 a series of contracts was entered into between the Italian Government and the Shipping Companies for the operation of specified subsidised services to South America, Africa, the Far East, Australia, etc. The Italian budget for shipping subsidies for 1934-35 totalled 264 million lire.

In addition to direct subsidies, credit facilities were made available through an Italian Maritime Credit Institution, established in 1928. Under this scheme the total of the loan operations for the first three years was fixed at one thousand million lire. In 1933 a special series of bonds amounting to 200 million lire in the form of mortgages was guaranteed by the State. By a decree of 1938 in connection with the 5-years shipbuilding plan of 1937, State assistance was provided to shipbuilders in the form of duty-free importation of shipbuilding materials and exemption from taxes, in respect of shipbuilding contracts and to shipowners in the form of amortization grants; exemption from Income-tax on the earnings of ships covered by the plan etc.

These are all summarised below :

Bounty for Construction of Ships.

(a) Italy paid from 1886 to 1914 . . . . . Lire 68,590,335

These bounties include bounties on boilers, engines and auxiliary equipment as well as on hulls. Construction bounties are based upon the gross tonnage of the ship, the power of the propelling unit (measured by fuel consumption) and the weight of the engines, boilers and auxiliaries.

(b) Again, Italy's construction bounty authorizations under law of 1926 between 1926-27 and 1937-38 came to . . . . . Lire 684,000,000 = $ 35,525,000

(c) The above authorisations were exclusive of a naval bounty of . Lire 5,000,000
" The actual direct bounty provisions of this law may be summarised, for all practical purposes, as 32 lire ($ 1·68 at stabilized exchange) per gross ton for steel hulls, 16 to 36 lire ($ 5179) per metric ton on auxiliary boilers and 120 lire ($ 6·31) per metric ton for auxiliary machinery . . . .

(d) Italy gave from 1926 to 1938 bounties for shipbuilding, the annual appropriations for which have been of the order of . . . Lire 50,000,000

(e). The Italian Government have sanctioned early this year subsidies totalling about £5,000,000 for the construction of 260,000 tons of new shipping. Credits will be advanced by the Government upto 40 % of the cost of building new ships including tankers. The profits earned from the operation of these vessels will be exempt from income-tax. The ships will not be required to carry compulsory cargoes and will not be requisitioned during the next five years. Coastal operators are also included in the scheme and they will receive priority according to the number of ships lost during the war . . . .

('Journal of Commerce ' d/31-1-1949).

(f) Italy paid from 1926 to 1938 as subsidies under this head amounts to the limit of . . . . Lire 684,000,000 =£·6,250,000

Bounty for operation or navigation of ships :

Italy paid between 1886 and 1914 as Navigation bounties . . Lire 806,099,210

Loans to Shipbuilders

1928-36.

Facilities to shipowners for shipbuilding were provided by 2 Organisations. (The Institute of Naval Credit and the Consortium of Banks) by the grant of loans to the extent of . . £13,000,000

BRITISH DOMINIONS—CANADA.

These steps were not confined to foreign competitors only. Britain's own Dominions were not backward in imitating her own example and the precedents set by other countries. In Canada, for instance, Government discovered that Canadian ocean-going vessels were found to be under heavy handicaps in meeting the competition of more modern and efficient ships flying foreign flags. To overcome this, they proposed early this year to grant a subsidy with a view to aid Canadian Shipowners. The proposals were that the depreciation of the capital cost of either a new ship or of modernising an old vessel will be allowed over a period of not less than 5 years. A tax-free fund out of general profits is also to be allowed for the replacement of vessels, as well as one to cover deferred maintenance arising out of the surveys every four years. The Canadian shipowners will also be allowed to accumulate depreciation in unprofitable years and charge it up in more profitable years.

(from "Journal of Commerce" dt. 10-2-1949).

Other Dominions like Australia have also developed their own mercantile marine, since 1939, by active State assistance till 1945.

The newcomers are the more readily forced to do so, as the countries which now own the bulk of the world's shipping, and have established amidst them their own industry, to build new ships required for the ocean trade, are unwilling to offer to other countries anything like a fair proportion of these ships on any reasonable terms. British herself, for example, has recently refused to transfer the surplus British ships from the British Register to Indian Register. Nor would she help India to acquire them from the United States even though the Government of India were willing to facilitate the purchase of such ships by the Indian concern. The Conference between Indian and British shipowners in July 1947 was wrecked on the same rocks.

PART IV.

Post-war Shipping Needs of India.

We have adduced examples just to show that the claims here made on behalf of India are backed by abundant and respectable authority. With such example before her, with a long coastline of her own, and a considerable overseas trade India cannot but feel the need of an adequate, efficient and economical mercantile marine of her own. Says the Policy Committee No. 4-C on *Shipping*, appointed by the now defunct Department of Planning and Development of the Government of India :—

> "For a country of its size, the length of its coastline and its strategic position athwart one of the world's main sea routes, India possesses a distressingly small number of deep sea ships which at the outbreak of war stood at no more than 30 with a total of less than 150,000 tons gross. India's weakness in this respect has long been recognised and the Government of India are pledged to a policy of assisting in the development of an Indian Mercantile Marine. So far, however, the action taken to implement this undertaking has been limited to the establishment of the "Dufferin" for the training of executive officers, the provision of special facilities for the training of marine engineers and to using Government's good offices to promote a settlement between the Indian and British companies operating on the coast with regard to the division of the available trade between them.
>
> The vulnerability of India's position has been revealed by the stress of wartime conditions, but by no circumstances more glaringly than by her inability to find adequate shipping from her own resources to provide for the transport of the food supplies required by her. The rectification of this state of affairs should be one of the immediate post-war objectives, not only for commercial reasons but also because the development of the Royal Indian Navy necessarily implies the concurrent development of the merchant navy.
>
> The acquisition of an adequate share in the world's carrying trade should be the aim of our post-war shipping policy and to this end steps should be taken to secure for Indian shipping—
>
> (i) an increased share of the coastal trade including trade with Ceylon and Burma (The present share is estimated at between 20—30 per cent.);
>
> (ii) a substantial share in the near trades, *e.g.*, Persian Gulf, East Africa, Malaya and Dutch East Indies; and
>
> (iii) a fair share in the Eastern trades, especially those trades of which Japanese shipping will have been dispossessed;
>
> (iv) a fair share also in the trade between India, on the one hand, and the U.K., the Continent of Europe and North America on the other; and
>
> (v) in order to give maximum relief to the railways, a number of steps have been taken to ensure the fullest utilization of country craft and to prevent wasteful competition between country craft and steamers. As India may have to look to all forms of transport to sustain her economy in the post-war era the continued development of country craft will have to be considered. Co-ordination of steamer and country craft services is an essential part of this development subject to due regard being paid to the different needs served by steamers and country craft".

Reconstruction Policy Sub-Committee on Shipping.

In pursuance of the above Policy a Sub-Committee was constituted in November 1945 under the Chairmanship of Sir C. P. Ramaswami Aiyar, with the following terms of reference :

"To consider the Departmental Statement of Post-war Shipping Policy, and in the light of that statement and all relevant considerations, to recommend—

(1) what would be a suitable tonnage target for Indian shipping, to be attained within a period of five to ten years;

(2) what percentage shares of the maritime trade of India and other trades in which India is interested, both coastal and overseas, cargo and passenger, should be secured for Indian shipping; and

(3) what measures should be taken—

(a) to regulate the shipping industry with a view (i) to preventing the formation of establishment of combines or monopolies or excessively large units (ii) to ensuring that the number of shipping companies is no larger than economically adequate,

(b) to ensure a fair and equitable distribution, among existing companies and those yet to be established, of trades which may hereafter be secured for Indian shipping.

The Sub-Committee will be competent to make such other recommendations, as seem germane to the subject".

The Sub-Committee in their Report, submitted in March 1947, and approved by the Policy Committee, made the following recommendations :—

(1) "The concensus of opinion is that to carry the Cargo amounting to more than ten million tons a year and about three million passengers, India needs two million gross tons of shipping. This figure does not include country craft".

(2) "We recommend that hundred per cent. of the purely coastal trade of India, seventy-five per cent. of India's trade with Burma and Ceylon and with the geographically adjacent countries, fifty per cent. of India's distant trades and thirty per cent. of the trades formerly carried in Axis vessels in the Orient should be secured for Indian Shipping in the next five to seven years".

(3) (a) "As the Indian shipping industry is still very young, we fell that emphasis should now be placed on how Indian Companies could expand their fleets, and we have, therefore, stated that it is not possible at this stage to define what an "economically adequate unit" would be so far as this industry is concerned. It would not be desirable to fix a tonnage limit for Indian Shipping Companies, nor would we recommend the imposition of any restriction on them with reference to their capital structure. But, as we are anxious to prevent monopolistic exploitation, we have recommended that the Indian Shipping Board should be empowered to control deferred rebates, rate-cutting and all other evils arising from monopolies.

(b) Equitable division of trades between Indian Shipping Companies is essentially a matter of detail to be settled by the Companies themselves. If the Companies, however, fail to come to an agreement, Government should evolve suitable measures for the fair and adequate distribution of the different trades".

In regard to State aid the Sub-Committee recommended "that the Government of India should give financial aid to that section of the industry which partakes in India's Overseas trade. As the licensing system recommended by us would naturally limit the tonnage operating on the coast, this portion of Indian Shipping need not necessarily be financed by the State Aid".

The Sub-Committee further recommended "in order to implement our recommendations it is vital that the Government of India take immediate steps to set up a Shipping Board. The Shipping Board should be the spear-point of policy locally and internationally, and should have powers to licence Coastal vessels and to submit to Government proposals for the removal of all evils of monopolistic exploitation".

The Government of India, by their Resolution No. 172-M-1(25)/47, dated the 12th July 1947, fully endorsed the view of the Committee that India like other important maritime countries must adopt a *dynamic policy* with regard to her Shipping, and re-affirmed the Departmental statement on Post-War Shipping Policy. The Government of India, after careful consideration of the Report, summarised their conclusions on the recommendations in the Report as under :—

"The Government of India agree that the definition of 'Indian Shipping' as shipping owned, controlled and managed by Indian nationals, would be the ideal one and should be the ultimate objective. The Government of India, considering the conditions, then prevailing felt that the criteria to be satisfied by Companies to qualify them for treatment as 'Indian Shipping Companies' should be as follows :—

(a) The steamers of the companies should be registered at a port or ports in British India; provided that where Government are satisfied that any Company is prevented from complying with this condition by circumstances beyond its control, it may be modified suitably;

(b) At least 75 per cent. of the shares and debentures of the companies should be held by Indians in their own rights;

(c) All the Directors should be Indians;

(d) The Managing Agents, if any, should be Indians.

The Government of India added that any Company, which found it difficult to comply with any of the above conditions, might apply for Government's specific approval to its being treated as an Indian Shipping Company.

With regard to the shares to be secured for Indian Shipping in the various trades, the Government of India declared that it was their intention to assist Indian Shipping as far as possible in securing the shares recommended by the Sub-Committee.

The Government of India accepted in principle the recommendation of the Sub-Committee that a Shipping Board should be set up and agreed generally with the Committee's proposal regarding its functions.

A system of licensing and control, although of limited duration and scope, had been introduced in the Coastal trade, and the Government of India considered that these arrangements could ultimately lead up to the more comprehensive system recommended by the Sub-Committee.

Failure of the London Conference.

The Government of India accepted the Sub-Committee's views that the development of Indian Mercantile Marine would be facilitated if an understanding on the subject could be reached with the British Government and British shipping interests. A Conference of British and Indian shipping interests was accordingly held in London in July 1947. The Indian representatives tried to secure a share in the country's overseas trade when they were confronted with the question whether they had the ships to carry the share of the trade which they ought to secure. We did not possess the requisite tonnage and the British interests were not prepared to help us by selling us some of their ships. In the face of the British attitude of "no ships no share in trade", the negotiations could make no progress and the Conference dispersed without achieving any results.

Government reaction—Shipping Corporations.

The Resolution of the Government of India was followed by a Conference of Shipping Interests held in Bombay on 3rd November 1947, at which the then Commerce Minister, the Hon'ble Mr. C. H. Bhabha, in explaining the Shipping policy of the Government of India as declared in the above Resolution, observed *inter alia* that as an interim measure the Government had taken the following preliminary steps :—

(i) Some of the Indian Shipping Companies had been encouraged and assisted in procuring tonnage from the U.S.A. by the provision of foreign exchange on a considerable scale and such other administrative action as lay in the Government's power to take;

(ii) Government had formally accepted the tonnage targets laid down by the Sub-Committee, and also the principle relating to the reservation of Coastal Trade for Shipping Companies borne on the Indian Register;

(iii) That his predecessors in office had set on foot some negotiations with the U.K. Government for the sharing of coastal and overseas trade on an agreed basis, which negotiations had led up to a Conference in the U.K. between the British and Indian Shipping Companies. which had failed to yield tangible results.

The Commerce Minister referred to two fundamental defects in our shipping position, namely :

(1) Shortage of tonnage, and

(2) Shortage of trained man-power, and told the Conference that the Government's constructive approach to the problem implied;

(a) firstly, an immediate planned attack on the above basic weaknesses of our shipping position, and

(b) secondly, such legislative and administrative action as might be necessary to safeguard the interests of Indian Shipping both in Indian and foreign waters.

As regards the question of shortage of tonnage he referred to the volume of trade to be carried, namely, ten million tons and three million passengers a year, and the tonnage target of two million tons which had been accepted by Government, and which latter, be observed, could be achieved in two practicable ways, namely :

(1) either by building in India or abroad, or

(2) by acquiring such tonnage as might be available from the U.S.A. or other countries.

After examining the possibilities of the above courses; the Commerce Minister observed that Government felt that the required additional tonnage must be secured from the Maritime Countries of the West which might have surplus ships to offer us. Government were aware that very few of the Shipping Companies in this country had the resources to buy a sufficiently large number of ships that might be found available, and it had been increasingly borne in upon Government that if at that stage of the development of the Shipping Companies in this country Government had to rely on private enterprises. the growth and development for our Mercantile Marine would be disappointingly slow. The Government of India had therefore come to the conclusion that their new Shipping Policy must be broadbased on the active co-operation of the State with enlightened private enterprise in an endeavour to secure for India her rightful place among the Maritime Nations of the world.

This new policy, Government felt, necessarily involved the setting up of a new pattern of organisation where the State would have an effective voice in the shaping of policy as well as in such major administrative decisions as might be necessary from time to time to give effect to that policy; and the Commerce Minister set forth the broad outlines of that policy as under :—

(1) Government should immediately take the initiative in establishing two or three Shipping Corporations.

(2) In each Corporation, in order to secure and retain effective control, Government should contribute not less than 51 per cent. of the total capital. The balance would be subscribed either wholly by an approved existing Shipping Company or partly by such Company or partly by the public.

(3) Government would be entitled to nominate a number of Directors on the Board of Directors of the Corporation proportionate to the share of the total capital subscribed by them.

(4) No private Company would be associated with more than one Corporation and where no one existing Company was found suitable, participation by a group of countries would be permitted.

(5) A Company, or group of companies, so associated would act as Agents of the Corporation under the control of the Directors of the Corporation on such terms and conditions as might be stipulated in the Agency agreement; ordinarily 100,000 tons would be regarded as the optimum tonnage for operation by each Corporation.

The Commerce Minister observed that the objectives underlying the Government proposals were to ensure the rapid expansion of Indian-owned tonnage and the development of the Indian Mercantile Marine on sound, healthy and nationally acceptable lines, and he was convinced that it was only an organisation of the type as outlined above that could achieve this objective. He further observed that in still backward maritime country like India it was only a Government-controlled organisation that could pull its full weight in the private highly organised maritime economy of the world, and that it was only such an organisation that, by revealing Government's direct interest in this branch of transport, could :

(a) encourage the flow of private capital and diversion of private enterprise to Shipping services,

(b) eliminate unhealthy competition between Indian companies in the same trades, and

(c) prevent the establishment of private monopolies. Government felt that the association of private capital and of the operation and managerial experience of established private companies with the proposed corporations would reduce the risks to be taken by the corporations in what in normal times was considered hazardous venture and would help towards efficient and economical management.

In placing the above scheme before the Conference, the Commerce Minister ended his speech with the following pregnant observations stressing the Government's goal and pledging their steadfast progress towards its attainment, at the same time impressing upon the industry how Government expected to it play its part in the projected venture in co-operative enterprise :—

"I hope I have said enough to convince you that Government are not oblivious of their responsibilities in the matter, and that in spite of their many worries and anxieties and major distractions they are moving steadfastly towards their goal. The pace may appear slow to many of you, and the goal may be only dimly visible in the horizon, but we must be on our guard against any hurried moves or any false steps taken in a huff. We must make the basic foundations of our Shipping Industry secure against attack both from within and without, and it is only a co-operative structure, based on the active guidance and co-operation of the State, that can withstand such attack.

"The organisation that we propose for the Shipping Industry of the future will, I trust, provide the nucleus of such a co-operative structure. Whether or how this structure will grow and develop will depend largely on our capacity and character. For, in shipping as in

all other industries, it is the quality of the Nation that alone constituted the ultimate guarantee of progress".

The scheme was carefully examined by the Indian shipping interests who approached it with considerable hesitation and grave doubts as to the chances of a State-owned organisation proving successful as a commercial and business proposition. It was generally felt that a scheme of loans at low interest for the acquisition of tonnage combined with operational subsidies would be more appropriate in the conditions obtaining in this country. It however, appeared that Government would not entertain any proposal that involved the grant of loans, and eventually some of the leading companies decided to participate in the project.

The following set-up has been evolved since, namely : —

(a) that three corporations should be set up each with an authorised capital of Rs. 10 crores, to be subscribed in the following proportions :—

(1) 51 % by Government :

(2) 26% by the Shipping Company, or block of Companies, which would be entrusted with the Managing Agency of the Corporation :

(3) 23% by the public. If the share of the public contribution did not materialise, the same would be provided by Government.

(b) The operational distribution of trades between the corporations would be as under :—

The First Corporation :

India/Persian Gulf.
India/Red Sea and Egyptian Ports.
India/China and Japan.
India/Australia.

The Second Corporation :

India/America.
India/Malaya and the Straits.

The Third Corporation :

India/East and South Africa.
India/U. K.

So far arrangements have been completed in the case of only one corporation namely, the first of the three mentioned above, and its operations have commenced with the Sciendia Steam Navigation Company, Limited, as the Managing Agents. The other two corporations are still in the negotiation stage, the factor mainly responsible for the delay being the difficulty experienced in raising the capital required apart from Government's contribution. In formulating this project Government had expected that their direct interest in the industry would encourage the flow of private capital to it. This expectation has not been realised. For reasons into which it is unnecessary to enter, the prevailing shyness of private capital, which has held up the planned industrialisation of the country in other directions, has also been responsible for the unfortunate predicament of the Shipping Industry. It is difficult to say how long it would take conditions in the country to return to normal and for private capital to recover confidence sufficiently to be attracted to the Shipping Industry. In the meantime, since in the interests of the country it would not be advisable to allow the growth of the Shipping Industry to be held up for the above or other reasons, it seems that both the Industry and the Government must put their heads together and evolve other practical ways of achieving their common objectives. The sections of this memorandum under the head "Charter of Rights" and "Declaration of Policy" will be found to contain some helpful indications.

The Three Corporation Scheme covers India's trades with countries of all Continents each dealing with two Continents, *e.g.,*

I. Asia and Oceania.

II. Europe and Africa.

III. North and South America.

It is very scientific in character as shown by the following table bearing on the last pre-war year exports from the 16* natural geographic regions of the world on the basis of their similarity of climate, production, contiguity or political association.

Indian Tonnage Targets in Trade of India with Sixteen Regions in Million Dollars.

(1938)

Regions	Total trade 8000,000	Gross Tonnage Target	No. of Steamers of 7000 G. I. R.
1. Tropical Agricultural and Mineral—South East Asia	40	55,000	8
2. Agricultural and Industrial—Japan, Korea and Formosa	91	125,000	18
3. Agricultural—China and other Continental Asiatic countries	87	120,000	17
4. Agricultural—Oceanic Islands	23	30,000	4
5. Agricultural—Industrial—Northern, North America	11	15,000	2
6. Agricultural—Industrial U. S. A.	95	130,000	19
7. Mineral Producing—Latin America	3	7,000	1
8. Tropical Agricultural—Latin America	9	10,000	1
9. Non-tropical Agricultural—Latin America	18	25,000	4
10. Industrial—Continental Europe	259	355,000	50
11. Agricultural—Continental Europe	22	30,000	4
12. Industrial and Agricultural—Non-Continental Europe	383	530,000	76
13. Agricultural and Industrial—Union of Soviet Socialist Republic of Russia.	1	7,000	1
14. Temperate Agricultural Zone of North Africa	7	10,000	1
15. Tropical Agricultural Zone of Africa	44	60,000	9
16. Mining Zone of South Africa	14	20,000	3
Total	11,07	1,529,000	218

*Temperate-Tropical Agricultural and Industrial Region of India, Burma and Ceylon forming as a result of historical association a compact unit covered by the Indian Coastal trade has been omitted from this table.

N.B.—These figures of 1938 present a picture of India's trade position then. Trade with different groups of countries have since materially altered, *e.g.,* as with U.S.A. By 1949, the total trade has tended to approximate the pre-war figure and the target is adequate to meet the requirements of India's trades when returned to normally.

The above regions are covered as under :—

FIRST SHIPPING CORPORATION :

Asia and Oceania :

	Exports 1938 ($000,000)	Export Per-centage
(1) *Tropical, Agricltural and Mineral—South-East Asia,* consisting mainly of Siam, British-possessions in Malaya and Borneo, French Indo-China, Indonesia and Philippines.	1,000	4·6
(2) *Industrial and Agricultural Region of* Japan, Korea and Formosa .	817	3·7
(3) *Agricultural—China and other Continental Asiatic countries,* including those of the Middle East	787	3·6
(4) *Agricultural—Oceanic Islands* comprised mainly of Australia and New Zealand.	776	3·5
	3,380	15·4
SECOND SHIPPING CORPORATION :		
Europe and Africa :		
(5) *Industrial—Continental Europe* consisting of the following countries, *viz.,* Austria, Belgium, Luxemberg, Czechoslovakia, France, Germany, Italy, Netherlands, Sweden, Switzerland	6,173	28·2
(6) *Agricultural—Continental Europe* made up of the following countries, *viz.,* Bulgaria, Denmark. Estonia, Finland, Gibraltar, Greece, Hungary, Aegean Islands (Italian), Latvia, Lithuania, Malta, Norway, Poland—Danzig, Portugal, Rumania, Spain, Turkey, Yogoslavia . . .	1,825	8·6
(7) *Industrial and Agricultural—Non-Continental Europe* made up mainly of the United Kingdom and Ireland	2,410	11·0
(8) *Agricultural and Industrial—Union of the Soviet Socialist Republics* : .	25·7	1·2
(9) *Temperate Agricultural zone of North Africa* consisting of Egypt, Libya, Algeria and Morocco	17	1·9
(10) *Tropical Agricultural zone of Africa* consisting of the island of Madagascar and all countries between North Africa as defined above and South Africa as defined below :		
(11) *Mining Zone of South Africa* including the Union of South Africa, Rhodesia and Nyaasaland	236	1·1
	11,356	53·7
THIRD SHIPPING CORPORATION :		
North and South America :		
(12) *Agricultural Industrial-Northern America* containing Canada . .	915	4·2
(13) *Industrial Agricultural—United States of America*	3,112	14·2
(14) *Mineral-producing Latin* America consisting largely of Mexico Colombia, Equador, Peru, Chile, Bolivia, Venezuela and the Guianas.	834	3·8
(15) *Tropical Agricultural—Latin America* consisting mainly of Brazil, South of the Equator, and Central America in the North.	677	3·1
(16) Non-tropical Agricultural—Latin America, covering Argentine, Paraguay and Uruguay	510	2·3
	6,048	27·6
Grand Total	21,517	100·0

*This first region forms as a result of historical associations, a Compact unit, covered, in shipping parlance, by the Coastal Conference concerning them.

Indian capital for Indian shipping

The extent to which a nation may industrialise primarily depends on its capital resources. Capital is the life blood of trade and industry. It would, therefore, be in the fitness of things if, at this juncture, a brief survey is held of the capital investment of our country.

It is commonly alleged that Indian capital is shy for investment in the modern productive industry worked by power-driven machinery on a large scale, and engaged in large scale production as much for home consumption as for export. The direct contact between the producer and the consumer, which was characteristic of the days when these industries were working on a relatively small scale for known local market has disappeared; and production has become more and more for an indefinite market, whether within or outside the country. The average Indian capitalist of these days with relatively small amount to invest fought shy of such investment mainly because he was unfamiliar with the technical side of the new type of industry. The marketing of its produce, likewise, or the business side of that industry was under conditions also unfamiliar to him. The one guarantee of success in competition was lacking for Indian enterprise in industry, as the foreigner was more favoured.

In the early days of British rule in India, therefore, Indian capital kept away from the newer type of Industry, and confined itself to the easier role of financing local, small scale industry, or conducting local trade.

In proportion, however, as the nationalist consciousness grew, and more and more Indian enterprise came forward to take charge of new industry, local capital was also attracted in small doses. With a modicum of protection since 1923 to such enterprise in selected industry, capital investment began to expand. Figures given elsewhere* indicate the investment of capital in the leading Indian industries. Most of this is Indian capital, though foreign and particularly British investment in Indian industry has not disappeared. Indian capital investment in modern industry is steadily expanding since 1923, though even now it is not in proportion to the vast leeway to be made up, and the immense resources awaiting development.

Whether Indian capital is still shy is difficult to decide in the absence of adequate data on the subject. The volume of total investment in all kinds of joint stock companies, registered in India, and having rupee capital, in 1937-38, was given at Rs. 851.21 crores authorised, of which Rs. 279.17 crores was paid up. These figures are ten years out of date. According to a careful inquiry made by the Report of the Sub-Committee on Industrial Finance, appointed by the National Planning Committee, for 1,024 companies registered in India with Rupee Capital in 11 principal industries including Railways, but not Shipping, there was a total paid up capital of 352.22 crores at the end of 1946-47. But even in 1937-38, the total number of Registered Companies in India was, according to official statistics, 11,372; so that the above figure of Joint Stock Companies at work in India represents not even a tenth of the total such enterprise. In addition, there were in 1937-38, working in India, but registered outside India, 884 companies with a paid up capital of £127.883 millions, equal to Rs. 1180.34 crores. Even assuming that foreign investment has in recent years declined mostly by transfer to Indian ownership,—the capital actually invested in Joint Stock industrial enterprise cannot be less than Rs. 1,500 crores; probably much more. Add to it, the capital employed by individual or partnership ventures, in small and large scale industry and business, the aggregate cannot be under Rs. 3,000 crores without reckoning the fixed and demand deposits in banks aggregating nearly Rs. 1,000 crores. This is not a negligible figure.

The institutions and devices, moreover, which help to mobilise and collect the available capital for investment as soon as it is formed and direct such capital into appropriate channels, are also in an elementary stage, still, in this country. Banks and credit facilities are confined to a small section. The predominence, moreover, of finance capital rather than investment capital discouraging an adequate volume of permanent investment in relatively less profitable enterprise is unavoidable. To correct these our inherited handicaps, and

*See Appendix VII.

to discover, mobilise and employ all available as well as new capital that is being formed, specialised institutions, devices, and properly trained personnel are necessary. The institution established last year by the Government of India of an Industrial Finance Corporation, specifically designed to provide industrial finance is an example of the progress necessary, if this initial handicap is to be effectually removed. If adequate investigation is made of the sources of capital and of the capital still remaining unemployed, or locked up in ornaments and jewellery by the richer classes of Indian society, and effective steps taken for its investment, a comprehensive plan of intensive industrialisation may not suffer for lack of the necessary capital.

It may further be added that, according to the Resolution on Industrial Policy, passed by the Constituent Assembly on April 6, 1948, lack of capital can be remedied by attracting foreign capital on fairly liberal terms for investment in Indian industry or enterprise.

"The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest.

"Suitable legislation will be introduced for this purpose, and such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in Industry. It will provide that, as a rule, the major interest in ownership and effective control should always be in Indian hands, but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

"The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally ready to extend their assistance to private or co-operative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent.

"The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. The system of taxation will be reviewed and re-adjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

"The Government of India hope that this elucidation of their intentions on fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country".

For the particular industry and service, *viz.*, shipping and shipbuilding, with which this Memorandum is specially concerned, lack of capital could not be urged as having been responsible for its limited beginnings in 1919 and 1941 respectively. The largest steamship company of this country was floated with a fairly adequate paid-up capital in the first instance for the coastal trade. And when the ruthless competition of the foreign concern operating in Indian waters brought heavy and repeated losses, a considerable portion of that capital was cheerfully written off to meet these losses. The investor did not hesitate to bear this sacrifice rather than see a vital national enterprise die out for lack of life-blood needed for maintaining that enterprise. It was a struggle of the lion and the mouse, in which the lion had at last to cry for quarter, not because its strength was exhausted, or because it was ensnared; but because of the equally determined front put up by the mouse, i.e., the Indian Capitalist. As the wind

began to turn on account of extraneous reasons, and not because of any special encouragement, assistance, or protection by the then Government of the country, the Indian enterprise naturally sought to make good its footing. The new capital required for expansion of the service and taking the increased share in the coastal trade of the country as well as venturing farther a field, was readily raised in the shape of additional shares.

Even when it started the basic industry of ship-building it got hardly any support or assistance from the Government of the land except what the unavoidable necessities of the war forced upon them to concede. The Indian investor was able to provide capital needed to make a reasonable beginning, in a relatively virgin field, so far as modern type of ocean-going ship-building was concerned.

The handicaps upon Indian construction of fairly large-sized cargo vessels or liners suitable and economic for overseas trade, were even more than on merely operating ships bought or chartered from abroad. Nevertheless Government moved not a finger to help to tide over the initial difficulties.

Since the war, and particularly because of the conditions in the post-war world, in India and outside, Indian shipping is meeting with adverse times. The heavy cost of replacement of ships lost during the war, the increased labour and material costs, and the immense wastage of time through delays occasioned by dock congestion, etc., have increased the operating costs enormously, and the working of the enterprise means heavy and recurrent losses. Notwithstanding the losses and still more losses, if timely and adequate assistance were given by the Government of the country, which now has not even the excuse of being alien in complexion or sympathy, on the lines and precedents provided by other countries under similar situations, there is every reason to believe that Indian shipping enterprise and modern shipbuilding industry would continue to keep its head above water, and make its contribution to the general progress of the country's industry, commerce and national security.

With regard to foreign capital and the Shipping Industry, it would be realised that by the very nature of things Shipping is not on the same footing as the other industries. Whereas the Constituent Assembly by their Resolution of the 6th April 1948 welcomed foreign capital in aid of Indian Industries, the same source needs to be sedulously kept out so far as the shipping industry is concerned. Shipping is a National asset, much more than any other industry, both in times of peace and war, and should therefore be made to thrive on national resources only whether private, public or governmental.

It is earnestly hoped that the Commission will give their most active and sympathetic consideration to the suggestions regarding shippping finance offered in the Sections on " Our Charter of Rights " and " Declaration of Policy " and make favourable recommendations which would support, maintain and expand this vital national industry to its fullest legitimate proportions.

Training of Technical Personnel of the Shipping Services and Establishment of Nautical College, Apprenticeship, etc.

The immediate goal of the Shipping Industry in India as envisaged by the Shipping Policy Sub-Committee, and the Government in their subsequent pronouncement is to reach a gross tonnage of two million tons in the next 5/7 years. This expansion on a large scale would naturally necessitate the procurement of suitable technical staff to man the steamers. It is not possible to give at this stage an exact estimate of the number of officers that would be required both above and below deck. It is, however, estimated that at the very least about 1,500 certified Deck Officers and 1,000 certified Engineers would be the immediate demand during this critical period. The Government foresaw this huge demand and to meet it very wisely appointed a Merchant Navy Officers' Training Committee under the aegis of the Ministry of Commerce in October 1947. This Committee, under the Chairmanship of Capt. H. L. Davis, submitted its report to the Government on the 20th December 1947.

The recommendations of this Committee have been adopted by the Government and a Nautical College has been established at Bombay to train Executive (Deck Officers). The Government have also instituted a Marine Engineering College at Bombay and Calcutta and there is a proposal to open further Nautical and Marine Engineering Colleges at Vishakapatnam and Cochin. These colleges would no doubt provide officers to the Merchant Marine in due course of time. This, of course, will not fulfil our immediate needs and to obviate this difficulty the Government encouraged the steamship owners to take direct apprentices. They also started pre-sea training courses for educated young men to be taken up as direct apprentices.

It would, therefore, appear that adequate provision has been made to supply to the Industry their requirement in the shape of Executive Officers and Marine Engineers.

So far as the training of the Deck and the Engine Room Crew is concerned, there do not appear to be concrete proposals from the Government in this behalf.

There is, however, no doubt that India has a fine batch of men in their seafaring community. Despite the fact that a large number of them have to be engaged as compared with foreigners, their lower wages more than compensate for their numerically high number, leaving a balance in their favour in the bargain. In so far, however, as the charge is well grounded, the fault lies not so much with the capacity of the sailor, but with his general condition of insufficient education and training. The usual conditions of work, and the general habits and custs of the people also do not make for over-zeal or efficiency. Plant and machinery which in many cases are worn out or obsolete, naturally do not yield comparable results. The continued domination of an alien race for over a century, and ceaseless exploitation of the land and its people for another's benefit has engendered a feeling of indifference which unconsciously colours the thought and work and general attitude of all classes of our people. The sailors share that sentiment in their own way and apply it all unconsciously to their work. They lack a sense of identity of interests in their employment; and so cannot put out the best that lies in them. The war-time experience, however, of modern enterprise established in this country under American management showed that, man for man, and with comparable conditions, the Indian worker was able to yield the same results as his American prototype. It gives sufficient ground to hope that, with improving conditions of work, the Indian sailor would show the same or comparable efficiency as his prototype in other countries.

It is to be hoped that Government will bring out a suitable scheme for the training and education of the Indian seamen at any early date.

With regard to the absorption of Apprentices by Shipowners, it would not be out of place to mention that the capacity of a ship both as far as the living quarters and of the lifeboat is concerned is limited. Shipowners are, therefore, perforce compelled to enlarge this accommodation on their existing tonnage at considerable expense to meet the wishes of the Government in this behalf. It would, therefore, be in the fitness of things, if, in the interests of the nation as a whole Government would consider sharing this expense with the shipowners. In considering this suggestion the Government may kindly bear in mind that the shipowners have to spend, at the present day rates of wages and prices, something over Rs. 15,000 on the maintenance and education of each apprentice, during the period of his apprenticeship, *i.e.*, four years. This expenditure, of course, is extra to that which the shipowners has to bear in providing living and life-boat accommodation for the apprentices.

Whilst on the subject of apprentices, it may be mentioned that various steamer companies have their own forms of Indenture. It has been repeatedly brought to the notice of the Government that there be a common form of indenture so that the apprentices are attracted equally to all the lines offering this facility.

Inland Water, Transport Industry and Service

Material Developments have taken place since the end of the war in our water carriage industry,—inland, coastal and overseas, which hold out considerable promise of a bright future, though the implementation of the policy announced is slow and halting.

Inland waterways had been practically choked by the development of railways and the growth of mechanised road transport. Attention has, therefore, to be particularly devoted to this branch of the service as well as the industry on which it is based. Before the railway came to India, inland water transport was highly developed. The railways proved fatal to this cheap, indigenous form, which has not progressed in parallel with rail and road development as in other countries, like France, Germany, or the U.S.A. There are parts in the country where river or canal navigation is still active. In Madras, the Godavari Canals, the Kistna Canals, the West Coast Canals and Bedaranniyam Canals, are still important highways for water transport, which provides cheap and ready mode of access to all markets. Important waterways are also found in East and West Bengal. Calcutta, the largest sea-port in India, depends very considerably for its trade both ways upon its waterway communication. About 25 percent. of the merchandise which flows into Calcutta from the rest of India is waterborne, of which no less than 63 per cent. comes from Assam. About 32 per cent. of the exports is carried by water, and of this 72 per cent. goes to Assam. The total inland water-borne traffic of Calcutta amounts to approximately 45,00,000 tons, of which 34 per cent is carried by inland steamers and 66 per cent by country boats. In 1945, 1,04,00,000 passengers were carried by steamer service in East and West Bengal.

Altogether it has been estimated that the amount of boat traffic over Government maintained channels is in the neighbourhood of 250 million ton miles per annum ; barely one per cent of the pre-war goods traffic by railway. It is, therefore, obvious that, as matters stand today, inland water transport forms an insignificant proportion of the nation's transport services. But that cannot deny the tremendous scope for water transport expansion which is available.

As against 45,000 miles of railroad tracks, the total length of waterways in undivided India with perennial streams was about 25,000 miles, comprising 10,000 miles of rivers and 15,000 miles of canals. Of the former, as many as 6,000 miles are navigable to a minimum of about three feet draught, and of these about 5,000 miles are in the north-east of India, comprising the provinces of old Bengal and Assam. These are worked increasingly by power-driven boats of comparatively small load and low draught though neither sailing craft nor tugged barges are unknown on the rivers of India. The basic industry for building such vessels, with all their accessories and equipment is in a rudimentary stage, and needs very intensively to be encouraged if the yet undeveloped resources of the country are to be fully exploited and utilised. Even for the minor task of repairs India is yet rather poorly equipped. The question of improving India's natural waterways is receiving close attention of the local Governments. The Central Waterways Irrigation and Navigation Commission is endeavouring to co-ordinate these efforts on a countrywide scale and on a multipurpose basis.

Conservation of water resources on a multi-purpose basis offers the following potential new navigable waterways or the resuscitation of old ones :—

I. *Bengal (East and West)* :

(a) A new canal to connect the coal fields of Bengal and Bihar with the port of Calcutta.

(b) Resuscitation of the Bhagirathi route to the Ganges.

(c) Resuscitation of the inner boat route connecting Calcutta to East Bengal to shorten the existing route by 50%.

(d) Resuscitation of the river routes to North Bengal as visualised in the Tista Valley Project,

(e) Resuscitation of the old Brahmaputra and Dhallashwari rivers in the Dacca and Mymensingh districts.

II. ***Assam*** :

Resuscitation of the Dihing, Dihu, Dhansiri and Kalung rivers in Upper Assam.

III. *Bihar* :

(a) Resuscitation of the Gandak and Kosi series of rivers.

(b) Extension of navigation on the Sone river for about 150 miles as visualised in the Sone Valley Project.

IV. *United Provinces and Central India* :

(a) Resuscitation of the Gogra river which would afford navigation facilities up to Fyzabad as in former days.

(b) Flood control on the Betwa and Chembal rivers holds promise of ample discharge in the dry season, to permit navigation on the Jumna from Ettawa to Allahabad and on to Calcutta *via* the Ganges.

V. The Narmada and Tapti pass through the Central Provinces and a number of States before they join the Arabian Sea in the Bombay Presidency. Investigations are in progress to assess the value of these rivers for multi-purpose development including navigation.

VI. Possible development of the Godavari, Pranhita, Wardha, and Waiganga rivers suggest other main lines of communication and taking into consideration the possible development of the Tapti river it may be found practicable to obtain a transcontinental line by connecting the Wardha and Tapti rivers.

VII. *Orissa* :

(a) The Orissa coastal canal between the Hooghly and Dharma rivers, together with an extension of the Mahanadi delta system to link with the Madras canal system would afford inland navigation from Assam to Madras.

(b) The Mahanadi Project visualises the provision of navigational facility on the Mahanadi river to Sambalpur about 300 miles from the sea.

VIII. *East Punjab, West Punjab, Sind* :

Resuscitation of the rivers Indus, Chenab and Sutlej would restore 26,000 miles of river communication to their former navigability, but the interests of established irrigation may stand in the way of reviving these communications to any extent.

These, when in full working order, will provide a good supplement to the roads and railways for heavy, long distance traffic, which cannot bear high freight rates. The economics of water transport have already been examined sufficiently to explain and justify this expectation. The boat-building industry, and all its connected or subsidiary industries, actively encouraged and properly developed, would offer work to thousands of skilled and unskilled operatives in perennial shipyards, without counting the still greater scope for profitable employment of labour and capital in such transport business, fishing, and even the national navy.

Coastal and Overseas Transport

As regards coastal and overseas shipping industry, right up to the eve of the World War II, practically all available traffic on the coasts of India was monopolised by British and foreign shipping concerns. They had large fleets, wide connections, and innumerable ways of keeping up their monopoly. The small struggling Indian enterprise, which had from time to time entered the

field particularly after World War I, was sought to be throttled out of existence in the very first years of its life by the many and varied devices at the command of the foreign shipowners. The British Government of India supported those outside interests by such aids as postal mails subsidies stores carriage, troops transport and passage for Government servants on leave, deputation, or otherwise.

The Indian demand for abolition of some of these devices by legislation, and reservations of at least the coastal trade for ships owned, manned and controlled by Indian enterprise, was at first strongly opposed and defeated, and then restricted by agreement to a small slice of that business.

During the war, however, and because of the shortage of freight and the disproportionate increase in traffic due to the war the advantages of having an adequate Indian Mercantile Marine were realised, if only to fill up the gap in such an emergency left by the foreign shipping. British ships were either destroyed in large numbers by mines or submarines; or diverted to more urgent services as auxiliaries to the Royal Navy, transport of troops, stores, equipment and armament to the theatres of the war and *vice versa.* Indian-owned ships were also commandeered for such service. With the acquisition of Independence, India's need in this behalf was felt more than ever urgent. The growing consciousness of national self-sufficiency in such essential industries, services or utilities, has intensified the demand for increasing a national Mercantile Marine, owned, manned and controlled by the Indian.

Coastal Trade of India

The phrase "The Coastal Trade of India" has history behind it. In shipping circles it covers the trade between the parts of India, Burma, Ceylon and Pakistan. As is well-known until 1937 and 1947, Burma and Pakistan were parts of one India and the island of Ceylon was regarded as an adjunct of the Sub-Continent. The trade between these four countries can now be called the contiguous coasts trade of India, Burma, Ceylon and Pakistan as distinct from the pure coastal trade of the countries concerned. The following table gives the cargo tons moved in these trades by British, Indian and Pakistan ships for the year ending 30th June 1949.

Trades	Total Tons	British	Indian	Pakistan
1. India-Burma-Ceylon-Pakistan	53,82,355*	29,95,569	19,30,156	4,56,628
2. Inter-India	28,62,314	13,86,217	14,38,343	37,754
3. Indo-Pakistan	8,66,514	4,17,610	1,87,465	2,61,437
4. Indo-Burma	6,36,186	5,12,708	1,23,478	..
5. Indo-Ceylon	4,37,962	4,05,968	24,696	7,298
6. Burma-Ceylon	3,03,155	1,74,465	1,28,688	..
7. Burma-Pakistan	23,721	16,802	6,919	..
8. Ceylon-Pakistan	29,388	27,977	89	1,322
9. Inter-Pakistan	2,23,117	53,822	20,478	1,48,817

*In 1939, this figure was 70,00,000 of which mineral oil, which now is nil, accounted for 12 lacs.

Statement showing tonnage (Cargo Vessels only) primarily employed in coastal trade by various shipping companies, Indian as well as non-Indian, plying on the Continent of India as on 1-11-1949.

Names of Companies	Owned		Chartered		Total	
	No. of vessels	G. R. T.	No. of vessels	G.R.T.	No. of vessels	G.R.T.
INDIAN COMPANIES						
1. Ambica S. N. Co. Ltd.	3	2,739	2	8,751	5	11,490
2. Bharat Line, Ltd.	10	43,647	..	..	10	43,647
3. Chandbali Steamer Service, Ltd.	2	1,273	..	..	2	1,237
4. Currimbhoy Lalje Sajun	..	..	2	4,840	2	4,840
5. Dominion Trading Co.	..	..	1	4,818	1	4,818
6. Great Eastern Shipping Co. Ltd.	2	11,535	4	20,524	6	32,059
7. India Pacific Navigation Co.	..	..	1	5,055	1	5,055
8. India Steamship Co. Ltd.	..	..	2	3,972	2	3,972
9. Jayabharat S. N. Co. Ltd.	1	983	..	..	1	983
10. Malabar Steamship Co. Ltd.	1	857	3	9,870	4	10,727
11. Merchant Steam Navigation Co.	2	2,182	..		2	2,182
12. National Steamship Co. Ltd.	1	1,648	..	..	1	1,648
13. New Dholera Steamships Ltd.	2	6,546	..	..	2	6,546
14. Scindia Steam Navigation Co. Ltd.	15	71,929	..	..	15	71,929
Associated Companies						
(1) Bengal Burma S. N. Co. (Cargo-cum-Passenger).	1	4,808	..	..	1	4,808
(2) Bombay Steam Nav. Co.	9	18,128	..	..	9	18,128
(3) Eastern Steam Nav. Co.	1	967	..	..	1	967
15. South East Asia Shipping Co. Ltd.	.. 2	1,555	..	..	2	1,555
16. Swedeshi Steamships, Ltd.	..	..	1	1,763	1	1,763
TOTAL	52	1,68,797	16	59,593	68	2,28,390
BRITISH COMPANIES						
17. Asiatic S. N. Co. Ltd.	17	90,068	..	..	17	90,068
18. British India S. N. Co. (including Passenger Vessels).	25	1,29,461	12	84,080	37	2,13,541
PAKISTAN COMPANIES						
19. East & West Steamship Co.	5	19,919	4	421,144	9	41,063
20. Muhammadi Steamship Co.	4	23,500	3	16,833	7	40,333
21. Karachi Steam Navigation	1	about 1,877	..	..	1	1,877
GRAND TOTAL	104	4,33,622	35	1,81,650	139	6,15,272

Statement showing total tonnage owned by Indian Companies

	No. of Vessels	Gross Tons
Employed in Coastal trade:		
Cargo vessels	52	168,800
Passenger vessels	2	9,200
Ferries and launches	21	2,500
Employed in Overseas trade:		180,500
Cargo : Scindia S. N. Co.	10	70,000
India S. S. Co.	8	60,600
Govt. of India	2	14,400
		145,000
Passenger : Scindia	2	17,500
		162,500
GRAND TOTAL		343,000

Conferences

Conferences are associations of shipowners intended to provide, along the routes served by the members, regular services throughout the year. The first conference was started some 70 years ago at Calcutta to serve the trade with the United Kingdom. Since then, owing to the useful purpose they serve, both from the point of view of the shipowners and shippers, their number has grown and now they cover almost all the important trade-routes of the world. The chartered tonnage, no doubt, is still available and is operating on various routes; but the amount of tonnage so operating is small as compared with its figures after the first World War and even before the second World War. So far as India is concerned, the Conferences cover its coastal and overseas trades. The coastal conference covers India, Burma, Pakistan and Ceylon of which the first three large countries were undivided whole until Burma was separated and India divided. The overseas trade of India is covered by conferences generally concerned with the East Coast and West Coast of the country and deal with the trades to Australia, Far East, U. K.-Continent and North and South America. Just as the East Coast of India was first covered by the conference, the West Coast trade may be said to be the last to be so covered. The Karmahom Conference, covering Karachi-Bombay-Mormugao range, has been formed only recently and the West-Coast America Conference is in process of formation. It is of interest to note that at the instance of Government, the Lines of Shipping Companies operating their vessels overseas to U. K. and U.S.A. have been admitted members of respective conferences.

As is well known the Indian Mercantile Marine made its debut in the coastal trade where it found its activities largely hampered by, in addition to the rate wars, the practice of Deferred Rebates paid by the long established British interests and there was naturally a hue and cry against it, but its force abated after the conference membership was thrown open to Indian Companies. In fact the system has lost much of its significance since the introduction of the licensing system in the Coastal Trade of India. As a result recently the Deferred Rebate System has been ended in the coastal trade of the country. Nevertheless the system prevails in the overseas trades as it enables the shipowners to provide, and the shippers to profit by, regular services by fast modern cargo liners running regularly irrespective of the seasonal changes in various trades.

Port Development

Apart from the major ports of Bombay, Calcutta, Madras, Cochin, Tuticorin, the Kathiawar ports, and Mormugao, practically all the other Indian ports are open roadstreads, without much modern equipment for loading or unloading. Ships have to anchor there two miles or more from the shore. In normal times, these ports were used considerably by coastal and other steamers and country-crafts. To cope with the increase of coastal shippings well as for overseas trade, more harbours would have to be constructed and smaller ports modernised and developed.

For a proper development of water-transport—both inland and overseas—terminal facilities, in the shape of ports and harbours, with adequate equipment for loading and unloading, storage and transport to and from hinterland, is indispensable. One of the major causes recent heavy losses by shipping concerns in India is excessive congestion in the principal ports. This may be due to labour difficulties also. If a reasonable tonnage is economically to do the country's overseas, coastal or inland water-transport, these facilities will have to be substantially improved, congestion remedied, enforced idleness of available tonnage remedied and port dues brought within economical limits.

It may be added that in the plans that have been made so far, this item has occupied no insignificant place. A Port Development Committee, set up in February 1945, emphasised the importance of improving, expanding, and modernising the general facilities at the existing major ports to cope with all foreseeable traffic demands. Anti-slump projects of Port Development, to be financed by interest free loans from the Centre at the ports of Bombay, Cochin, Madras and Calcutta, and other improvement and development works, financed entirely by the port authorities themselves, whether from loans or otherwise, amounting in all to approximately Rs. 18 crores, are also contemplated. These works will add considerably to the capacity of the major ports, estimated to the about 25 million tons imports and exports.

The Report of the Ports (Technical) Committee recommended major works at Vizagapatam, Madras, Bhatkal and Sika. Though the Port Development Committee estimated the capacity of major ports at about 25 million tons, as adequate for the anticipated traffic of 22,000,000 tons, immediately after the war, the Development Committee thought "that on the grounds of defence and strategic requirements of the country, and the industrial, agricultural and economic development, which is sure to take place in the near future, and also in view of the need for wider dispersal of port capacity throughout the country, a deep sea port on the East Coast, where ships could safely enter at all times of the year and in all weather, is a great necessity".

Accordingly the task of developing Vizagapatam as a sheltered deep-sea port, which can accommodate ships of at least upto 650 feet in length, with drafts up to 30 feet was accepted, and the first priority to improvement at the entrance and construction of new cargo, oil and coal quays, and graving dock, was granted.

The partition did not materially affect the scheme for Ports Development except that two of the major jorts,—Karachi and Chittagong have gone out of the Indian Union. Instead, one major port is to be established at Kandla in Cutch, thanks mainly to consideration of a strategic character.

Shipbuilding Industry

The place of the shipbuilding industry in the country's economiy cannot be overstated. Till such time as we are able to have a well balanced fleet of ships, this industry will help us save a substantial portion of the imports. Thereafter, and also in the meantime, our yards can accept orders from foreign countries, near and far off, and contribute substantially to our export trade. This is apart from the freight earnings.

History records that the shipbuilding industry in India in ancient times was the envy of foreign shipbuilders. Only with the advent of steam and iron ships and foreign rule, this industry languished. The various discriminatory measures adopted by the British Government made it impossible for even shipping to thrive, let alone our shipbuilding. A pioneer venture in modern shipbuilding was made by Scindias in 1941, when the foundation stone of the Vizagapatam, shipbuilding yard was laid by the then President of the Congress, Dr. Rajendra Prasad.

The idea of constructing a modern shipbuilding yard was conceived by the Scindia Company as early as 1919 *pari passu* with the flotation of the company. Due to the sudden and unexpected death of the foreign shipbuilding expert who had been commissioned at the time for this purpose, the project had to be shelved temporarily. It was, however, revived in 1933, when efforts were made to locate a suitable site first in Bombay, and later in Calcutta. Due to the unhelpful attitude of the authorities, both these places had to be dropped, and, after the outbreak of the war in 1939, the Scindia Company selected a site at Vizagapatam and established a shipbuilding yard capable of building modern vessels upto 8,000/10,000 tons.

After eight years of strenuous efforts, during which the yard was temporarily dislocated for a few years due to the indifference of the authorities coupled with enemy bombing, the yard has launched three ocean-going steamers, of 8,000 tons each. The company's investments in the yard so far total about 5 crores of rupees.

It must be realised that the shipbuilding industry in India being in an infant stage, the cost of new ships constructed here is inevitably much higher than the cost of similar ships built abroad. This is due to various causes, among them being the difficulty of procuring the required quantity of steel, trained labour, etc. Assuming these will reach normal levels in course of time, the point for consideration is whether it would be an economically feasible proposition for this industry to continue building at the present high costs. The alternative is, perhaps to close down the industry.

In considering these alternatives, the second proposition must be ruled out suicidal. As regards the first proposition, it must be borne in mind that all the industries of a country have in their infant stage stood in need of protection from Government, and got it. The more so is such a protection needed in the case of a shipbuilding industry in view of its international character and exceptionally high cost. The only country in the world which is capable of producing ships at economical prices is the U. K., and that is because the industry of that country is centuries old. Even in an advanced maritime country like the U.S.A., the cost of building ships is much more than in the U.K. The point to be considered in this connection is that the shipbuilding industry of the U.S.A. has not been allowed to languish merely because of the high cost of construction. The Government of the U.S.A. has adopted means by which the industry has been subsidised to the extent to which the cost of ships built in the U.S.A. yards could be on a par with that of the ships built in the U.K. This example provides a model for the Indian Government to adopt.

Administrative Organisation.

Having considered the growth of Indian shipping and the vicissitudes through which it has been passing during the last few decades, as well as the means by which our shipping could be developed to enable us to have a substantial participation in the overseas trade, we shall now consider the setting up of suitable machinery to help us achieve our objectives.

It is obvious, the primary factor which will contribute to the proper development of our merchant marine is a correct appreciation on the part of the Government and the Commerce of the country of the part shipping plays in our economy and in times of emergencies like war. The machinery must necessarily therefore be a body constituted by Government and providing representation for both shipowners and commerce. The Reconstruction Policy Sub-Committee of Shipping has recommended the setting up of a Shipping Board to be presided

over by an independent Chairman possessing judicial training and having as its members representatives of Government, Shipowners and Commerce. The reason for the judicial qualification appears to have been provided by the fact that the question of shipping rates might be within their purview; but since then rates questions are being limited to *ad hoc* Rate Tribunals presided over by a judicial officer. It would appear that that particular activity need not now be entrusted to the Shipping Board. Moreover recently the Government of India have appointed a Director General of Shipping, with headquarters in Bombay, who will initiate and finalise all matters connected with shipping except questions of policy which naturally continue to remain with the Central Ministry of Commerce. This new establishment must doubtless have its hands full with the various activities that have been brought together under its aegis. The administration of the ports has yet to be brought under this authority. Moreover the Indian tonnage today, though it is more than double of what it was before the World War II, has not yet reached even the figure of 350,000 tons. So over a million and a half of gross tons has yet remained to be achieved. Moreover the Indian Mercantile Marine of today is largely confined to coastal trading and the whole question of serving India's Maritime trade with the country's Mercantile Marine awaits development. Under the circumstances, in the opinion of the Association, the time has arrived for the establishment by Government of an Indian Maritime Commission in which the office of the Director-General as also of the Inland Water Transport Commission should be incorporated, thus bringing under the Commission all the water-borne activities —Inland, Coastal and Overseas—of the country.

To begin with, the Commission might consist of three members and presided over by the Director General of Shipping whose office will be merged into the Commission. Of the remaining two members one should be conversant with and have experience of shipping and the other member to be recruited should have experience of the world of commerce. Among the objectives of the Commission would be the full development of the Inland Water Transport system of the country. As regards the coastal and overseas marine, it should see that, to quote the report of the Reconstruction Policy Sub-Committee, "Indian tonnage must be enabled, within a very short time, to carry a very substantial portion of India's overseas trade and a fair portion of the carrying trades of the world". That is, it should assist in the realisation of the target of two million tons.

With this aim in view the Commission should consider all means of financing and otherwise including subsidies and other forms of State aid etc., required to provide India with an adequate and well balanced merchant fleet including vessels of all types to provide shipping services on all routes essential for maintaining the flow of commerce to and from India.

Among the functions of the Commission will be administration of all mercantile marine establishments, as well as shipping offices at ports, administration of ports and lighthouses as well as training ship "Dufferin", administration of nautical and marine engineering institutions, licensing, control of coastal shipping, administration of merchant shipping laws and administration thereof, and generally all matters concerned with the development of the merchant navy of the country including those mentioned in the Charter of Rights and Declaration of Policy in the following pages.

Intergovernmental Maritime Consultative Organisation

The Intergovernmental Maritime Consultative Organisation is a specialised agency attached to the United Nations Organisation, on the lines of the I.T.O. and I.C.A.O., to deal with shipping problems on international level. It emerged out of the discussions of the United Nations Maritime Conference at Geneva in 1948 which was attended by 36 maritime countries including India. The purposes of the Organisation are:—

1. (a) To provide machinery for co-operation among Governments in the field of Governmental regulation, and practices relating to technical matters of all kinds affecting shipping engaged in international

trade; and to encourage the general adoption of the highest practicable standards in matters concerning maritime safety and efficiency of navigation;

(b) to encourage the removal of discriminatory action and unnecessary restrictions by Governments affecting shipping engaged in international trade so as to promote the availability of shipping services to the commerce of the world without discrimination; assistance and encouragement given by a Government for the development of its national shipping and for purposes of security does not in itself constitute discrimination, provided that such assistance and encouragement is not based on measures designed to restrict the freedom of shipping of all flags to take part in international trade;

(c) to provide for the consideration by the organisation of matters concerning unfair restrictive practices by shipping concerns in accordance with Articles 2, 3 and 4;

(d) to provide for the consideration by the Organisation of any matters concerning shipping that may be referred to it by any organ or Specialized Agency of the United Nations;

(e) to provide for the exchange of information among Governments of matters under consideration by the Organisation.

2. The functions of the Organisation shall be consultative and advisory.

3. In order to achieve the purpose set out in Article I, the functions of the Organisation shall be :

(a) subject to the provisions of Article 4, to consider and make recommendations upon matters arising under Article 1 (a), (b) and (c) that may be remitted to it by members, by any organ of Specialized Agency of the United Nations, or by any other intergovernmental organisation or upon matters referred to it under Article 1 (d).

(b) to provide for the drafting of conventions, agreements, or other suitable instruments, and to recommend these to Governments and to intergovernmental organisations, and to convene such conferences as may be necessary;

(c) to provide machinery for consultation among members and the exchange of information among Governments.

4. In those matters which appear to the Organisation capable of settlement through the normal processes of international shipping business the Organisation shall so recommend. When, in the opinion of the Organisation, any matter concerning unfair restrictive practices by shipping concerns is incapable of settlement through the normal processes of international shipping business, or has in fact so proved and provided it shall first have been the subject of direct negotiations between the Members concerned, the Organisation shall, at the request of one of those Members, consider the matter.

Before examining the purposes enumerated above, we must bear in mind that Indian shipping is in an extremely undeveloped state and that the leading maritime nations of today have had substantial support and encouragement in a variety of forms before they attained the position they now occupy. Among the many methods adopted by these countries are granting of subsidies and bounties, extending financial assistance by cheap loans etc., giving preference to national ships for the carriage of cargo owned or controlled by Government, stipulating in bilateral trade agreements that preferential utilisation should be made of the ships of the contracting parties, and so on. India has not so far adopted any of these methods except stipulating in two or three recent bilateral trade agreements that the ships of the contracting parties should be utilised as much as possible for the carriage of the cargo covered by the agreements. This does not carry us far; without active assistance from Government, it would be next to impossible to develop national shipping.

Let us now examine the purposes of the Convention and see whether assistance extended by governments for the development of their national shipping comes within the scope of the IMCO. The main purpose of the IMCO is to encourage the removal of discriminatory action and unnecessary restrictions by Governments affecting shipping engaged in international trade so as to promote the availability of shipping services to the commerce of the world without discrimination. Obviously; financial help extended by Governments does not constitute discriminatory action, nor do the steps taken to reserve coastal shipping, for the IMCO is concerned only with international trade. Will preference given by Government to national ships for the carriage of cargo owned or controlled by Government be construed as discrimination? It should not be, for it has been a recognised practice in maritime countries for national shippers to give preference to national ships. So far as Government cargo is concerned, Government is certainly in the position of a shipper and has the right to choose its transport. Such choice, therefore, cannot be construed as discrimination by and strength of the term. Besides, it helps the conservation of foreign exchange resources which should be the aim of any country.

Coming to another aspect of the matter, it may be that for the development of national shipping some kind of discrimination and restrictions will be necessary. The IMCO recognises that assistance and encouragement given for the development of its national shipping and for the purposes of security does not in itself constitute discrimination. The Convention visualises only the removal of unnecessary restrictions. This means the restrictions which may be necessary for the development of shipping may be adopted. Besides the IMCO, by advisedly using the word "encourage", recognises that it would be difficult to remove all discriminatory actions forthwith. Evidently, even discrimination and unnecessary restrictions now practised by some governments are to be removed only gradually.

We do recognise the existence of a provision that such assistance and encouragement (given by Government) should not be based on measures designed to restrict the freedom of shipping of all flags to take part in international trades. This, however, will be largely determined by day to day events taking place in international shipping. We are all aware that the U.S.A. have stipulated that not less than fifty per cent. of the Marshall Plan cargoes should be carried in American bottoms and at the recent conference of the International Chamber of Shipping held in London, this was not regarded as discrimination because they were regarded as "in the nature of gift." There are also instances of other countries (*e.g.* France) making it a condition in their import licences that preference should be given to national ships for the importation of cargo covered by such licences. Taking these into consideration, it can be argued that preferences given by Government to national ships for the carriage of government cargo and even other cargo as well, will not constitute discrimination.

Again, the expression "to take part in international trade" does not necessarily mean that foreign shipping has a right to take full or part cargo from every port. "Freedom of shipping" can only mean that there should be no restrictions on shipping entering or clearing from international ports, with or without cargo.

Considering all these factors, we must, in ratifying the Convention or otherwise, assure ourselves that a proper interpretation would be placed upon the Convention so that our Government would be free to take all reasonable steps to develop our much needed national shipping. If, however, there is the remotest chance of these steps being regarded as contrary to the letter or the spirit of the Convention, the duty of the Indian Parliament is clear, namely, to decline to ratify the IMCO Convention.

PART V

Declaration of Policy and Charter of Rights.

As already expounded in the earlier parts of this Memorandum, Ship-owning and Ship-building are not only industries within the limited scope of the meaning of that expression, but they are essential services of vital importance to the existence of the Nation during the times of peace and particularly so during the times of war. In the political sphere our country has reached its cherished goal of Sovereign Republic State. If that State to be maintained powerful, prosperous and conforming to the ideals of democracy, it is necessary that the ship-owning and ship-building industries should attain an equally strong and independent state. Having surveyed in the foregoing pages the history and development of the shipping enterprise in India, its handicaps and disabilities, its prospects and potentialities, we shall now submit, for the consideration of the Fiscal Commission, what we believe to be the inherent Rights of the Shipping and Shipbuilding Industries in the future plan of the nation's economy. In an earlier section of this Memorandum we have referred to the Declaration embodied in the Merchant Marine Act, 1936, of the U.S.A. The Indian shipping and ship-building industries firmly believe that a similar Declaration require to be made by the National Government of India forthwith, the same being subsequently embodied in the new Indian Merchant Shipping Legislation which the Government of India are understood to have in hand at the moment. The industry gives the pride of place to this Declaration in their Charter of Rights which they desire to record herein, and which they trust the Commission will recommend to the Government of India for promulgation at the earliest moment. We give the Declaration below as we would like to see it promulgated by the Government.

Declaration of Policy.

"It is necessary for the national defence and development of its foreign and domestic commerce that the Union of India shall have a merchant marine—

(a) sufficient to carry its domestic water-borne commerce, and a substantial portion of the water-borne export and import foreign commerce of the Union of India, and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times;

(b) capable of serving as a naval and military auxiliary in times of war or national emergency;

(c) owned and operated under the flag of the Union of India by citizens of the Union of India; and

(d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the Union of India and manned with a trained and efficient citizen personnel, as far as possible.

It is hereby declared to be the policy of the Union of India to foster the development and encourage the maintenance of such a merchant marine.

Charter of Rights.

(1) That the Shipping Industry must be encouraged in all possible ways to achieve the target of 2,000,000 in a period of five years;

(2) That their way to progress be made smooth and fair by the Government and that no impediment in whatever shape or form be allowed in the way of that achievement;

(3) That the Industries be granted every facility to acquire more tonnage by the Government of the country coming to their aid in the form of—

(i) Construction subsidies.

(ii) Construction loan.

(iii) Instituting hire-purchase system by which the Government buys the ships in the first instance and sells them to the shipowners.

(iv) That the shipowners be allowed and given every assistance in chartering tonnage to enable them to expand the sphere of their operations. In this respect the Government, if they so desire, can purchase a fleet of their own and charter it on bare boat terms to ship-owners.

(v) That the shipowners be given an exemption from income-tax for the period of first five years to enable them to consolidate their position and build up reserves; like Italy etc.

(vi) (b) That the shipowners be given an exemption from income-taxes on the profits ploughed back into the industry.

(vii) That the shipowners be given operation differential subsidies.

(viii) That the shipowners be assisted with postal subventions, carriage of goods on Government account and carriage of troops and Government personnel.

(ix) That the ship-building industry be established in this country on a firm footing and that the old and new entrants be given facilities to purchase Government-controlled raw materials at a minimum fixed price.

(x) That the shipbuilders be given construction differential subsidies where their cost of building ships are higher than those prevailing in U.K.

(xi) That the shipbuilders be offered every assistance, financial as well as technical, not only to start and maintain the main industries, but also to start and maintain the ancillary and auxiliary industries so necessary for the shipyards of the country to become entirely independent in the production of their products.

(xii) That, finally and in the main, the ship-owners and the shipbuilders in the country look to the Government to consider the question of production and acquisition of tonnage as one of the most urgent problems of the day so that the Nation would have an adequate mercantile marine at the earliest possible moment.

Implementation of Policy and Rights.

It has already been recognised by the Government that this country must adopt a dynamic policy which should have as its objective, the attainment of a strong independent mercantile marine able to carry—

(a) the whole coastal trade of India.

(b) 75% of the near trade.

(c) 30% of the Far East trade carried by Japan during the pre-war period; and

(d) 50% of the India's Overseas trade;

and to achieve this object the industries recommend that the undermentioned policy be immediately adopted by the Government and published as their Declaration of Policy in respect of these two industries as under;

Whereas the Government find it expedient that the ship-owning and the ship-building industries be placed on a war-time footing of service and production to achieve a free and independent mercantile marine sufficient to safeguard the needs of the country during the time of peace and war. Now therefore it is hereby declared that:

(1) *Acquisition of tonnage be expedited.*—It has been laid down that the Indian Mercantile Marine should expand within the next five to seven years to 2.000,000 gross tons of shipping. With this aim in view the Government sponsored the Shipping Corporations on 3rd November 1947. Since that date, only one Corporation has come into being, and the other two may take some time

for incorporation. It is, therefore, decided that other measures be adopted to reach the target figure, mentioned above. The methods to be employed are :—

(a) *Repayable loans to Shipowners.*—The State shall advance loans to companies for the purchase of ships on the following terms :—

Period	25 years.
Interest	Free of interest for the first 5 years. 3% per annum from the 6th year.
Repayment	By yearly instalments of 1/20th of the loan amount, instalments starting from the 6th year.
Security	The ships purchased from the loan to be pledged to the State.

(b) *Hire-purchase system.*—The State may purchase ships and sell them to the shipowners on a hire-purchase system :

Period	10 years.
Interest	3% per annum.
Ammortisation	1/10th of the purchase price per year.

(c) *Bare Boat Charter.*—In this instance, the Government shall at all times remain the sole owners of the steamers. They shall purchase the necessary tonnage and charter is out on bare boat basis to the shipowners. The conditions would be that the Government shall levy from the shipowners the depreciation calculated at the normal rate, the insurance premia and the interest at 5% per annum on cost of the ship. The shipowners shall run the steamers as their own incurring all operational costs and all maintenance and repair charges; and also shall maintain the steamers in Class.

(d) *Assistance to Shipowners building new ships in India or abroad.*—The Government shall help such shipowners with construction bounties if the ships are built in India and/or loans against the cost of ships, if built abroad.

(2) *The following safeguards be provided for the coast trade* :—

(a) The whole of the coastal trade of India shall be reserved for Indian shipowners only.

(b) Pending the acquisition of tonnage required in (a) above :—

(i) Non-Indian Shipping, whenever it be necessary to permit it to ply in the coastal trade in the interest of the country, to be allowed to participate in the coastal trade on short-term or voyage licences.

(ii) Only charters by Indian Companies owning ships shall be licensed to ply on the coast.

(c) Freight rates shall be standardised forthwith and to achieve this object the Government shall nominate a Committee of Experts shortly. If the Committee happens to arrive at the conclusion that the freight rates be increased, pending the acquisition of tonnage as mentioned in (a) above, the Government shall pay a differential bounty to the Indian owners rather than increase freights.

(3) *That the following safeguards shall be provided for the Overseas Trade* :—

(a) By lending their good offices, in case of need, towards securing for Indian Companies, admission to existing Conferences operating in Indian Overseas trades.

(b) By granting operational subsidies (as in U.S.A.) to Indian Companies against their operating costs if higher while operating in Conferences; the operational subsidy to be increased suitably when Conferences break up and/or rate-wars are started and Indian Companies are faced with competition from foreign shipping.

(c) Government shall help Indian Companies operating in the country's foreign trades by shipping per Indian ships all Government stores and Government-controlled cargoes and also by requiring Government personnel to travel by Indian ships.

(d) Mail contracts shall only be given to Indian shipowners.

(4) *The following safeguards shall be provided for the shipbuilding industries* :—

(a) The Government recognise the necessity of having public co-operation so far as this vital industry is concerned and therefore they propose to help the Vizagapatam Ship-yard to reduce their cost of production by all means, fiscal and non-fiscal, as also by giving them construction bounties.

(c) The Government shall welcome private enterprise to establish ship-importation of materials and machinery within priorities, and by granting relief from income and other taxes; the Government shall help new yards by granting them—

(i) free long-term lease of land;

(ii) construction bounties;

(iii) loans;

(iv) relief from duties and taxes.

(c) The Government shall welcome private enterprise to establish shipbuilding yards in other parts of the country and shall, if required to do so, contribute towards the capital of the Company.

(d) The Government shall declare special rates for raw products required by the ship-building industry, like steel and coal, and shall levy only minimum transport charges from their respective mines to the shipbuilding yards.

(e) The Government shall help the industry by obtaining for them the services of foreign experts till such time as Indian technical personnel is trained.

(f) The Government shall encourage private enterprise to build up ancillary and auxiliary industries so necessary for the ship-building industry.

In short, Government declare that they shall do all within their power to establish and enhance the progress of these two industries in the country.

APPENDIX I

Statement showing India's Exports and Imports of Merchandise and Treasure for the following years in value (Rs. '000).

Year	Total Imports			Total Exports			Balance of trade
	Merchandise	Treasure	Total	Merchandise	Treasure	Total	
1923/24 . . .	237,18,42	53,20,40	290,38,82	363,37,64	3,67,33	367,04,97	+76,66,15
1928/29 . . .	263,39,80	37,29,42	300,59,22	339,15,07	6,35.31	345,50,38	+44,81,16
1933/34 . . .	117,30,45	1,96,15	119,26,60	151,17,16	63,56,38	216,73,79	+97,47,10
1937/38 . . .	117,22,09	4,71,25	181,93,34	189,76,39	19,76,70	209,53,09	+27,59,75
1938/39 . .	152,36,09	..	152,36,09	189,21,52	..	169,21,52	+16,85,43
1939/40 . . .	165,29,21	..	165,29,21	213,57,44	..	213,57,44	+48,28,23
1940/41 . . .	156,29,21	..	156,96,89	198,69,66	..	198,69,66	+41,72,77
1941/42 . . .	174,74,75	4,33,62	179,08,37	254,45,32	12,20,58	266,65,90	+87,57,53
1942/43 . . .	116,70,94	62,78	117,33,72	195,17,63	10,79,66	205,97,29	+88,63,57
1943/44 . . .	132,73,22	3,66,93	136,40,14	211,09,23	5,71,94	216,71,17	+80,41,02
1944/45 . . .	231,93,86	24,46,42	256,40,28	228,98,25	5,18,55	234,16,80	—22,23,48
1945/46 . . .	292,33,26	8,40,79	300,74,05	266,42,89	7,41,71	273,84,80	—26,89,45
1946* . . .	*316,38,00	..	316,38,00	305,71,00	..	305,71,00	—10,67,00
1947/48† . . .	445,88,00	21,06,00	466,94,00	408,24,00	2,00	408,26,00	—58,68,00
1948/49† . . .	518,00,00	80,00	518,80,00	422,82,00	1,00	422,83,00	—95,97,00

* Figures for 1946 are taken from the Report of the Currency and Finance for 1947-48 and are for the calendar year.

† Figures for 1947-48 and 1948-49 are from the Reserve Bank of India Bulletin, June, 1949.

APPENDIX II

Summary of the values of the Exports and Imports of Merchandise from the British Empire and Foreign countries.

(Rupees in Crores)

	1923-24				1933-34				1938-39			
	Imports		Exports		Imports		Exports		Imports		Exports	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
CLASS I Food, Drink and Tobacco.	30·39	13	89·15	25	12·24	10	36·02	25	24·00	15	39·13	3·24
CLASS II Raw Materials and Produce & Articles unmanufactured.	18·92	8	185·02	55	15·21	14	69·88	47	33·18	22	73·29	45
CLASS III Articles wholly or mainly manufactured	174·65	77	71·92	20	85·20	75	39·89	27	92·79	61	47·61	30
CLASS IV Living Animals	0·19	..	0·26	:	0·28	..	0·09	..	0·30	..	0·08	..
CLASS V Postal Articles & Baggage not specified.	3·44	2	2·46	..	2·40	1	1·34	1	2·07	2	2·66	1
	227·61	100	348·83	100	115·35	100	147·25	100	152·36	100	162·79	100

	1940-41				1941-42				1945-46				1948-49			
	Imports		Exports		Imports		Exports		Imports		Exports		Imports		Experts	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
CLASS I Food, Drink and Tobacco.	23·81	14	41·70	22	27·89	16	58·59	25	22·27	9	54·31	23	91·98	17	87·55	21
CLASS II Raw Materials and Produce & Articles unmanufactured.	42·10	27	61·86	32	49·99	29	65·38	27	116·86	48	69·81	28	126·93	25	98·64	24
CLASS III Articles wholly or mainly manufactured	89·51	58	81·18	45	93·54	54	109·26	47	101·61	41	111·89	47	294·52	58	234·79	55
CLASS IV Living Animals	0·05	..	0·07	..	0·02	..	0·08	..	0·03	..	0·27	..	..	..	..	..
CLASS V Postal Articles & Baggage not specified.	1·49	1	2·05	1	1·70	1	4·25	1	4·10	2	5·60	2	..	..	..	..
	156·96	100	186·68	100	173·15	100	237·56	100	144·85	100	241·90	100	518·00	100	422·82	100

APPENDIX III

Total Area and Production of all Major Food Grains—Rice, Wheat, Barley, Gram, Jowar, Bajra and Maize in India.

	Area (million acres)	Production (million tons)
1931-32	156·9	50·1
1941-42	156·5	45·7
1942-43*	150·0	42·2
1943-44	153·0	43·4
1944-45	169·0	43·4
1945-46	160·2	39·2

N.B.—*From 1942-43 onwards the figures given above relate to Indian Union alone.

(Figures taken from the volume on Crops—Planning and Production of the National Planning Committee Series).

Comparing the production in the Indian Union during 1947-48 with the average production for five years ending 1946-47 in respect of Rice, Millets, Maize, Wheat and Barley, we find that it has declined including both States and Provinces to :—

Rice	... ... 95.5%	Wheat	... ... 94.5%
Jowar	... ... 92.4%	Barley	... ... 95.1%
Bajra	... ... 84.4%	Maize	... ... 92.3%

Gram only shows an increase to 106.6%.

Total production (including Hyderabad) in all the major foodgrains in 1946-47 comes to 39.5 million tons, and in 1947-48 it comes to 40.4 million tons.

This has been supplemented as follows :—

From April 1945 to March 1946, 9.31, lacs imported at the cost of 26 crores.

From April 1946 to March 1947, 26.58 lacs. of tons at the cost of 88.70 crores involving a subsidy of 20.59 crores were imported.

And from April 1947 to Dec. 1947, it is estimated to be 19.12 lacs. and the cost is estimated to be 77.97 crores and subsidy to be 17.35 crores.

In 1948, the Import was over 27 lacs tons. while in 1949, it is estimated to be over 40 lacs of tons.

APPENDIX IV

AGRICULTURAL AREA

	1931-32	1941-42	1942-43	1943-44	1944-45	1945-46
			(In million	acres)		
1. Net Area Sown . .	228·8	213·2	171·8	173·8	174·0	170·8
2. Irrigated Area .	48·7	56·7	36·8	37·5	38·2	39·2
3. Total Food Crops . .	216·3	195·8	153·0	157·0	172·0	169·3
4. Total commercial crops .	39·2	50·1	32·7	33·3	30·0	30·1
Total area under Food and non-food Crops	255·5	245·9	185·7	190·3	202·0	199·4

Since the year 1942-43, the figures for the Indian Union and Pakistan have been compiled from a publication of the Economic and Statistical Adviser, Directorate of Economics and Statistics, Ministry of Agriculture, Government of India, entitled "ESTIMATES OF AREA AND YIELD OF PRINCIPAL CROPS IN INDIA 1936-1946", and therefore figures from 1942-43 onwards are for Indian Union only.

Total Food Grains include rice, wheat, barley, jowar, bajra, ragi, maize, gram and other grains and pulses except for the years 1941-42 to 1945-46 which do not include other grains and pulses.

Other food crops include fruits, vegetables, condiments, spices etc., but no figures are available in respect of these items for the years 1941-42 to 1945-46.

Non-Food Crops include oilseeds (sesamum, rape and mustard, linseed and other oilseeds), coffee, tea, cotton, jute, other fibres, indigo, opium, tobacco and fodder crops. Figures relating to other fibres, indigo, opium, fodder crops are not available in respect of the years 1941-1942 to 1945-46.

APPENDIX V

YIELD OF PRINCIPAL CROPS

(Figures in '000)

				Indian Union only			
		1931-32	1941-42	1942-43	1943-44	1944-45	1945-46
Rice	(Tons)	33,001	25,331	18,377	20,357	19,130	17,983
Wheat	,,	9,024	10,037	6,819	6,260	6,791	5,860
Jowar	,,	..	6,363	4,708	5,367	5,459	4,678
Bajra	,,	..	3,077	3,134	3,095	3,008	2,589
Maize	,,	..	2,015	1,978	1,911	2,153	2,024
Ragi	,,	..	1,845	1,771	1,764	1,638	1,170
Barley	,,	..	1,991	2,029	1,896	2,129	1,957
Gram	,,	..	3,131	3,416	2,763	3,140	3,029
Sugarcane	,,	3,975	4,371	4,370	4,969	4,614	4,430
Total Oilseeds	,,	4,331	4,541	3,782	4,216	4,652	4,11
Cotton (bales of 400 lbs each)		4,678	6,223	2,590	3,061	1,920	1,858
Jute ,, ,,		5,542	5,460	1,746	1,541	1,236	1,556
Rubber	(lbs.)	20,117	..	..	..	..	..
Indigo	(cwts.)	10	..	..	..	..	..
Tea	(lbs.)	394,083	501,087	490,021	497,003	447,904	501,661
Coffee	,,	33,614	35,772	32,514	34,180	34,600	50,400
Tobacco	(tons)	..	491	278	240	310	'312

Figures for 1931-32 are taken from the Statistical Abstract for British India 1927-28 to 1936-37 (Estimated Yield pp. 458-459).

Figures from 1941-42 are taken from " Estimates of Area and Yield of Principal Crops in India, 1936-46, " issued by the Economic and Statistical Adviser, April 1948.

From 1942-43 onwards the figures given are for Indian Union alone.

APPENDIX VI (a)

Summary of the value of the EXPORTS of Indian merchandise to the British Empire and foreign countries. (in Rs. '000).

	1923-24	1928-29	1933-34	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
I.—*Food, Drink and Tobacco*— Fish (excluding canned fish)	6,284	7,824	4,487	6,929	6,971	6,315	6,019	7,829	15,538	22,579	26,635
Fruits and vegetables	7,178	9,615	9,906	22,686	23,694	24,402	30,914	19,706	22,755	45,914	700,446
Grain, Pulse and Flour	5,08,715	3,36,942	1,17,480	77,412	50,882	59,089	1:,408	69,323	23,082	12,324	27,387
Liquors	18	1	12	63	127	124	230	46	48	67	143
Provisions and Oilman stores	6,035	6,448	2,812	5,932	7,085	7,308	7,936	5,992	5,849	2,482	2,013
Spices	11,086	15,880	7,220	7,866	10,793	7,552	11,302	19,410	14,481	11,145	30,879
Sugar	9,697	548	238	2,418	796	2,720	3,178	10,796	4,227	3,172	2,897
Tea	3,16,461	2,66,044	1,98,450	2,32,905	2,63,060	2,77,861	3,58,812	3,19,104	3,78,582	3,73,456	3,56,452
Other food and Drink	15,765	17,116	10,248	6,617	7,832	2,865	4,360	5,269	71,006	2,998	2,673
Tobacco	10,297	12,947	9,380	27,563	25,281	28,765	22,001	14,920	71,645	14,001	23,539
Total	8,01,537	6,73,366	3,60,230	3,91,392	3,96,522	4,17,000	5,85,865	4,72,385	4,79,212	4,87,838	5,43,064
II.—*Raw Materials and Product and articles Mainly Manufactured*— Coal	2,230	7,132	3,718	13,206	18,926	18,464	14,611	3,554	2,108	2,277	2,443
Other non-metallic mining and quarry products and the like.	10,713	9,244	5,227	12,075	18,789	16,087	31,348	28,017	29,107	3,392	24,918
Fodder, Bran and Pollards	12,846	14,493	4,664	896	480	552	541	715	706	312	189
Gums, Resins and Lac	91,894	84,608	26,051	15,010	22,247	25,062	54,401	32,366	29,262	47,470	49,613
Hides and skins, raw or undressed.	69,325	95,598	42,533	38,467	41,139	31,365	47,745	33,836	41,284	39,854	50,031
Metallic ores and scrap, iron or steel for re-manufacture.	23,383	29,991	20,634	16,723	22,818	18,322	29,149	23,250	22,388	11,128	11,669
Oils—Vegetables, Mineral and Animal.	29,003	8,663	5,724	10,337	13,747	24,012	26,372	13,684	8,313	10,557	17,108

APPENDIX VI(a)—*continued.*

Summary of the value of the EXPORTS of Indian merchandise to the British Empire and Foreign Countries—contd.

	1923-24	1928-29	1933-34	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Oilcakes of all kinds	19,410	38,418	16 472	30,120	20,922	3,416	3,744	6,149	1,492	41	71
Paper making materials	7	148	207	543	534	701	786	469	558	81	363
Rubber raw or crude	11,446	19,985	3,118	7,158	9,376	9,189	7,277	626	1,709	5,110	3,589
Seeds, including nuts for oils	2,98,172	2,96,252	1,36,615	1,50,922	1,18,953	1,00,492	1,04,416	1,05,176	1,11,492	1,05,335	1,45,127
Tallow, stearine and wax	2,242	797	270	327	322	492	716	761	292	170	192
Cotton, raw and waste	9,95,143	6,66,910	2,79,147	2,46,665	3,10,415	2,44,556	1,75,410	53,056	74,879	77,017	1,59,962
Jute	2,00,006	3,23,492	1,09,327	1,33,967	1,89,333	78,460	1,04,172	90,157	83,291	75,001	1,58,369
Silk	5,021	2,781	248	238	450	265	945	1,411	672	637	582
Wool	31,749	48,854	19,838	29,868	32,249	16,419	26,034	12,012	17,182	22,765	36,691
Other textile materials	7,651	8,756	3,729	7,298	8,721	7,629	9,667	5,329	6,732	7,047	5,123
Wood and Timber	12,467	17,489	8,221	1,846	1,703	2,386	1,998	1,381	967	1,343	2,908
Miscellaneous	27,556	25,091	13,084	17,253	20,374	15,779	14,551	15,710	15,615	16,886	28,804
Total	18,50,260	17,02,702	6,98,824	7,32,917	8,59,857	6,18645	6,53,783	4,27,569	4,48,051	53,423	6,98,149
III.—*Articles wholly or mainly manufactured*:											
Apparel	2,964	2,547	2,411	3,432	4,348	6,809	7,455	5,501	4,098	527	3,980
Arms Ammunition and Military Stores	11	1	..	4	1	..	11	1	2	1	8
Chemicals, drugs and medicines	32,529	21,567	11,429	4.405	5,597	6,546	9513	5,852	6,633	4,066	8,024
Cutlery, Hardware Implements and Instruments (excl. elc. Instruments and Apparatus)	1,451	1,689	978	4,237	4,702	6,403	7,277	2,673	2,255	2,623	3,887
Dyes and colours	13545	12,830	8142	7,211	8875	7558	5949	3605	3417	5,026	6,518
Furniture, cabinetware and manufactures of wood and timber	797	486	299	828	746	261	288	170	245	435	571
Glass and Earthenware	289	252	159	247	282	728	1284	733	760	1,172	1,772
Hides and skins, tanned or dressed and leather.	60,077	94,432	58,298	52,758	76,950	59,854	60,250	47,605	43,840	42,122	64,789

Machinery of all kinds, including belting for machinery . .	121	66	53	330	354	505	646	590	752	339	689
Metals—Iron and Steel and Manufactures thereof . . .	13,071	21,295	10,672	30,207	39,940	40,498	37,513	14,479	10,540	9,038	2,180
Paper, Pasteboard and stationery	114	129	125	1,275	1,766	4,110	3,989	547	530	3,008	897
Metals other than iron and steel and manufactures.	21,371	37,817	23,565	2,175	1,916	2,499	3,468	1,538	2,047	5,013	2,080
Railway plant and rolling stock	254	..	..	..	..	..	..	..	..	..	—
Rubber Manufactures . .	46	13	1	370	953	4,114	4,726	3,087	3,480	6,244	4,993
Vehicles, excluding locomotive, etc., for Railways.	64	20	8	179	70	162	144	98	117	85	72
Cotton yarn and Manufactures .	1,09,549	77,956	27,263	71,179	85,758	1,64,802	3,59,612	4,61,910	4,26,242	3,76,017	3,39,005
Jute Manufactures . . .	4,22,836	5,69,049	2,13,749	2,22,611	4,87,214	4,53,840	5,38,954	3,64,093	4,47,718	6,04,252	5,96,229
Silk	427	436	82	189	328	248	266	1,001	225	2	15
Woollen	8,263	10,218	7,400	8,262	8,899	7,324	7,883	4,083	6,302	16,603	23,827
Other yarn and Textile fabrics .	705	1,196	419	1,720	3,294	6,712	13,794	14,064	8,583	4,103	4,542
Miscellaneous articles, wholly or mainly manufactured	30,716	43,891	34,925	24,150	28,948	28,892	29,622	22,045	33,091	43,454	54,858
Total Cl. III .	7,19,229	8,95,890	3,89,976	4,76,132	6,60,142	8,11,870	10,92,642	9,53,681	10,47,893	11,28,640	11,18,840
IV.—*Living animals* :											
Horses	56	111	50	12	55	42	196	..	..	..	..
Cattle	879	535	72	84	167	101	143	282	182	72	6
Sheep and Goats . . .	1,393	2,938	785	600	508	510	436	1,232	2,173	2,713	2,734
Other living animals . . .	332	410	78	127	54	54	44	35	36	59	48
Total Cl. IV .	2,660	3,995	986	823	783	718	818	1,548	2,391	2,844	2,788
V.—*Postal Articles* :	24,676	25,325	13,490	26,653	21,909	20,670	2,513	23,859	21,251	30,029	56,074
Grand Total (Exports) . .	34,88,361	33,01,279	14,72,507	16,27,716	2,039,212	18,66,803	23,75,621	18,70,944	19,98,798	21,02,775	24,19,01 5

APPENDIX VI (b)

Summary of the value of the IMPORTS of merchandise consigned from the British Empire and foreign countries. (in Rs. '000).

	1923-24	1928-29	1933-34	1938-39	1930-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
I.—Food, drink and Tobacco—											
Fish (excluding canned fish)	2,967	2,576	1,505	689	730	661	624	190	174	334	405
Fruits and Vegetables	17,080	16,839	10,014	13,443	12,128	10.215	11,208	11,156	8,702	15,503	23,137
Grain, Pulse and Flour	4,390	1,07,281	8,370	1,37,646	2,18,054	1,43,485	1,50,203	3,085	3,072	80,918	91,893
Liquors	27,217	29,482	17,030	16,646	17,437	15,957	21,943	11,892	12,509	10,828	17,893
Provisions and Oilman stores	28,022	62,124	27,156	24,841	26,348	22,601	25,575	7,086	5,537	12,119	13,705
Spices	25,878	29,403	15,567	26,343	25,450	21,915	22,103	15,172	8,960	15,384	18,432
Sugar	1,54,507	1,60,895	27,097	4,558	33,158	3,610	10,754	187	13	2	38
Tea	8,226	7,422	2,513	1,573	1,596	1,259	1,198	5,174	217	93	18
Other food and drink	12,949	17,397	5,059	3,842	6,318	5,021	10,145	8,973	15,749	25,149	18,079
Tobacco	22,618	27,460	7,215	10,455	11,697	13,395	25,176	13,317	15,970	29,027	39,060
Total	3,03,854	4,60,849	1,22,226	2,40,036	3,52,915	2,38,121	2,78,931	67,234	70-905	1,89,357	2,22,661
II.—Raw Materials and Produce and Articles mainly manufactured—											
Coal	16,585	3,296	917	714	196	111	266	108	29	3	12
Other non-metallic mining and quarry products and the like.	21,980	15,590	11,317	17,525	14,839	11,333	11,210	18,946	32,914	54,063	57,200
Fodder, Bran and Pollards	73	149	68	109	321	114	58	3	2	..	..
Guns, Resins and Lac	5,175	5,526	5,802	4,789	5,277	3,767	5,113	2,748	1,980	4,893	8,451
Hides and skins, raw or undressed.	1,550	2,377	1,191	1,626	1,947	1,678	3,164	1,212	990	328	295
Metallic ores and scrap iron and steel for re-manufacture.	727	174	236	518	712	680	1,685	202	1,069	529	1,147
Oils—Vegetables, Mineral and Animal.	86,518	1,15,323	67,949	1,56,241	1,86,421	2,10,340	2,17,574	2,77,625	3,64,803	8,07,063	7,96,109

APPENDIX VI(b)—*continued.*

Summary of the value of the IMPORTS of merchandise consigned from the British Empire and foreign countries (in Rs. '000)

	1923-24	1928-29	1933-34	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Oilcakes of all kinds	13	10	4	7	8	22	20	2	4	1	41
Paper making materials	2,046	4,151	2,710	2,739	2,364	1,269	1,124	275	433	3,283	2,402
Rubber, raw and crude	46	27	377	1,057	14,946	3,188	8,014	771	500	19	41
Seeds, including Nuts for oil	564	2,228	4,374	7,093	8,802	15,373	19,840	22,707	12,311	14,458	14,610
Tallow, stearine and wax	2,662	2,625	2,125	3,623	3,767	3,069	5,810	3,684	3,952	2,290	3,246
Cotton, Raw and Waste	25,082	39,079	35,571	85,092	80,546	94,333	1,53,436	1,54,248	1,75,278	2,40,063	2,28,712
Jute, Raw	117	5	3	12	55	278	45	13	38	..	1
Silk, Raw and Cocoone	12,200	12,559	7,174	6,217	6,272	7,576	8,087	174	25	..	..
Wool Raw	4,055	4,952	3,410	6,211	7,499	27,884	27,718	29,550	40,225	20,957	30,904
Other Textile Materials	662	813	270	534	1,000	2,981	3,235	2,339	2,031	4,339	3,696
Wood and Timber	3,870	5,975	33,935	25,806	24,308	26,065	27,395	1,615	1,176	231	462
Miscellaneous	5,371	10,541	7,162	12,936	15,029	10,981	6,058	3,107	3,043	20,014	21,046
Total	1,89,295	2,25,198	1,52,188	3,31,846	3,61,311	4,20,996	4,99,854	4,19,326	6,40,803	11,72,534	11,68,368
III.—*Articles Wholly or Mainly Manufactured*—											
Apparel	16,669	25,116	12,901	6,295	4,830	3,741	3,215	1,201	505	1,415	5,077
Arms, Ammunition and Military Stores.	6,473	7,664	4,297	5,017	4,899	4,844	4,860	3,760	3,380	3,260	4,752
Chemicals, Drugs and Medicines.	41,237	49,150	49,731	56,205	75,050	80,670	86,671	63,805	72,598	1,01,419	1,02,038
Cutlery, Hardware, Implements and Instruments excluding electrical Instruments and Apparatus.	59,103	77,693	50,388	58,148	55,733	50,550	54,226	32,610	27,695	36,847	64,136
Dyes and colours	42,951	43,654	34,528	40,592	46,677	63,755	69,704	54,316	82,955	79,239	1,14,168
Electrical goods and Apparatus (other than machinery)	22,592	31,195	23,081	33,129	28,743	24,895	24,009	16,100	15,311	26,106	45,336

APPENDIX VI(b)—*concld.*

	1923-24	1928-29	1933-34	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Furniture, Cabinet ware and Manufactures of wood and timber.	4,531	6,068	1,153	4,458	3,944	3,134	1,785	659	524	288	1,078.
Glassware and Earthenware .	31,727	31,123	16,569	16,476	13,781	11.684	10,080	3,637	2,216	4,862	8,704
Hides and skins tanned or dressed and Leather.	5,232	6,389	4,653	5,320	5,380	4,765	6,276	4,183	5,227	3,839	5,509
Machinery of all kinds, including belting for machinery.	2,02,270	1,94,324	1,33,793	1,97,248	1,53,673	1,18,217	1,37,036	1,05,163	1,13,016	1,63,047	2,27,475
Metals—Iron and Steel and Manufactures thereof.	1,79,002	2,02,350	55,218	66,562	60,653	68,141	62,947	28,127	20,233	35,538	66,882
Metals other than Iron and Steel and Manufactures thereof.	63,980	67,361	39,533	41,572	47,336	50,080	63,699	33,556	20,938	29,178	61,915
Paper, Pasteboard and Stationery.	36,040	43,155	32,941	38,997	41,068	45,936	40,604	21,559	19,629	29,093	57,896
Railway Plant and Rolling Stock.	1,17,246	..	..	..	..	..	..	..	..	..	..
Rubber Manufactures . .	16,796	28,586	18,759	14,056	14,842	15,600	15,531	1,851	556	1,446	870
Vehicles, excluding locomotives, etc., for Railways	43,409	1,10,060	47,683	66,920	68,654	68,161	1,30,349	57,118	12,698	43,559	95,685
Cotton, yarn and Manufactures.	6,74,846	6,32,437	1,77,437	1,41,527	1,40,593	1,13,534	67,985	13,604	13,343	15,445	18,673
Jute	2,082	2,653	982	584	623	765	610	336	534	210	174
Silk	34,017	37,707	28,686	13,198	11,949	9,600	6,821	125	20	9	537
Woollen	24,410	45,234	22,084	21,978	14,141	14,953	19,280	8,266	4,473	10,516	30,303
Other Yarns and Textile Fabrics.	25,579	65,063	35,182	35,075	60,825	73,166	49,695	5,551	3,622	7,182	24,865
Miscellaneous . . .	96,402	95,952	60,487	64,589	64,675	68,682	80,305	39,819	29,763	57,166	80,014
Total .	17,46,594	18,03,039	8,52,083	9,27,942	9,18,063	8,95,073	9,35,388	4,95,345	4,49,237	6,49,664	10,16,087
IV.—*Living Animals*—											
Horses	1,798	3,337	2,652	2,818	1,412	535	226	36	38	27	302
Other living animals . .	189	233	160	254	156	34	16	5	..	3	29
Total .	1,987	357	2,812	3,072	1,568	569	24	370	38	30	331
V.—*Postal Articles and*	34,419	40,403	24,061	20,775	19,064	14,933	16,076	12,765	16,205	23,506	39,866
Baggage not specified .	..	..	..	..	..	..	968	366	462	515	1,148
Grand Total (Imports) .	22,76,122	25,33,060	11,53,570	15,23,671	16,52,921	1,569,692	17,044	13,131	1 6,667	24,021	41,014
	..	..	..	..	..	..	17,31,459	11,04,405	11,77,649	20,35,606	24,48,460

APPENDIX VII

Capital in Industries

Years	Jute Mills	Cotton Mills	Woollen Mills	Cement	Iron and Steel	Shipping
1919-20 . . .	Rs. 11,15,80,000	Rs. 27,07,83,642 £ 2,58,888	..	..	..	..
1923-24 . . .	Rs. 17,94,88,000 £ 21,25,000 $ 1,70,00,000	Rs. 43,58,24,553 £ 3,00,488	..	..	..	..
1928-29 . . .	Rs. 18,19,40,000 £ 25,25,000 $ 1,20,00,000	Rs. 42,82,00,829 £ 1,40,488	Rs. 1,70,63,018	..	..	..
1931-32 . . .	Rs. 19,76,49,000 £ 25,25,000 $ 1,20,00,000	Rs. 38,82,08,719 £ 1,92,131	Rs. 1,10,76,708	..	..	..
1933-34 . . .	Rs. 19,56,55,000 £ 25,25,000	Rs. 37,21,40,123 £ 2,08,223	Rs. 1,07,29,693	..	..	..
1939-40 . . .	Rs. 20,56,46,000 £ 25,25,000	Rs. 40,64,52,367 £ 2,08,223 Fr. 1,00,00,000*	Rs. 1,02,10,125	Rs. 7,05,42,100†	..	..
1948 . . .	..	..	..	Rs. 8,80,38,488	Rs. 10,47,23,600	Rs. 11,00,00,000

*Since 1935-36. † Since 1937.

APPENDIX VIII

EXPORTS

	1937-38 Tons	1948-49 Tons
I—*Textiles*—		
Raw Jute	747,258	212,760
Raw Cotton	487,764	85,210
Jute Manufacturers—		
Gunny cloth	...	432,553
Gunny bags	357,142	457,401
Rope, twine etc.	...	27,280
Twist and Yarn	...	8,000
Canvas	...	400
Raw hemp	41,485	33,056
Cotton piecegoods	35,714	33,816
Coir and coir manufactures	...	43,468
Coir Yarn	32,758	...
Carpets and Rugs	4,973	3,928
Cotton Waste	22,933	50,837
Raw Wool	1,695	3,840
Cotton Yarn	17	3,303
Silk raw and Cocoons	...	220
Silk Manufactured	...	1,200
Sewing Thread	...	4,000
	1,731,739	1,401,272
II.—*Metals*—		
Manganese Ore	1,001,096	309,000
Mica	...	16,999
Pig Iron	629,203	45,116
Old Iron N. Steel	57,477	...
Wolfram Ore	16	...
Chrome Ore	...	2,640
Iron and Steel Manufactures	...	12,054
Tin	...	240
Ores and Minerals Unenumerated ...	...	33,523
Mineral Sands	...	203,700
Magnesite	...	14,422
	1,687,792	637,694
III.—*Seeds*—		
Groundnut	619,370	38,272
Linseed	226,533	25,024
Groundnut Cake	251,576	...
Linseed Cake	47,003	...
Castor	42,079	386

	1937-38 Tons	1948-49 Tons
Rape and Sesamum Cake	36,891	123
Coriander and Commin & Others ...	...	38,993
Paraffin Wax	...	10,202
	1,267,253	113,000
VI.—*Coal*	1,004,899	1,119,105
V.—Foodstuffs—		
Wheat	459,806	...
Rice (not in husk)	227,000	...
Wheat flour	62,226	...
Green Vegetables (onions)	57,049	1,500
Lentils	19,409	...
Tobacco (raw)	18,955	22,700
Tobacco (manufactured)	...	2,224
Rice bran	8,222	...
Chillies	7,752	5,100
Coffee	6,757	30
Dry Fish	6,064	11,741
Ghee	2,260	...
Beans	1,975	...
Pepper	873	7,051
Gram	737	...
Cardamoms	665	900
Sugar	...	3,400
Molasses	...	22,520
Turmeric	...	7,500
Ginger	...	2,000
Betels	...	300
Salt	...	8,532
Tea	149	181,209
Tea waste for the Manufacture of Caffeine	...	3,000
Cashew kernels	...	18,285
Provisions and oilman stores	...	5,178
	879,899	303,170
VI.—*Chemical Products—*		
Shellac	20,461	24,532
Dyeing and tanning substances	...	35,000
Bone Manures	68,830	...
Bone and Bone Products	61,258	41,620
Lac Seed	9,374	8,000
Lac Button	1,200	700
Gums and Rasins	...	5,000
Magnesium chloride	...	3,200
Soap	...	2,612
Rubber	...	13,440
	1,61,118	1,34,104

	1937-38 Tons	1948-49 Tons
VII.—*Oils*—		
Castor Oil	...	13,433
Groundnut Oil	...	39,735
Linseed Oil	...	10,181
Vegetable non-essential oils	...	4,000
	...	67,349
VIII.—*Paper and Paper Making Materials* ...	...	10,326
IX.—*Hides and Skins*—		
Goat Skins	21,982	13,292
Hides (cow)	16,771	1,800
Leather (cow)	13,786	7,500
Hides (buffalo) Raw and Dressed ...	4,385	1,978
Calf Skins	1,863	661
Sheep Skins	3,271	2,129
Leather Unwrought	1,616	3,511
Cuttings of Hides and Skins	...	3,600
	64,983	34,471
Total (Tons)	70,00,957	38,20,491
N.B.—As about 1/6th of the value of the exports are covered by articles of merchandise (mostly dead weight cargo) not mentioned, 1/4th of the tonnage should be added	17,50,000	955,120
Grand Total (EXPORTS) ...	8,750,957	4,775,611

IMPORTS

	1937-38 Tons	1948-49 Tons
I.—*Fuels, etc.*—		
Kerosene Oil	9,04,670	3,25,044
Fuel Oil	5,71,647	..
Petroleum	4,55,607	19,62,290
Lubricating Oil	1,78,437	
Coal and Coke	83,919	..
	21,94,280	22,87,334
II.—*Foodstuffs, etc.*—		
Salt	3,47,305	3,00,808
Fruits and Vegetables	...	96,817
Rice not in the Husk	98,063	5,63,243
Rice in Husk	36,013	...
Dates	69,813	39,491
Copra Seeds	49,383	3,442
Pulse	45,932	30,982
Wheat	21,688	7,05,551
Wheat Flour	...	93,483
Barley	...	58,844

	1937-38 Tons	1948-49 Tons
Jowar	...	4,735
Beans	...	2,582
Other kinds of Pulse, Flour, etc.	...	2,23,912
Fodder, Bran and Pollards	...	12,302
Sugar	...	10,576
Unmanufactured Tobacco	2,955	5,139
Milk Food	3,439	17,305
Almonds	2,773	6,788
Cashewnuts	...	42,827
Currants and raisins	...	5,092
Spices	1,750	55,103
Spices	74	
Biscuits	1,483	2,400
Vegetable Products	883	...
Cigarettes	448	300
Salted Fish	114	2,822
Tea	16	300
Liquors	...	8,200
	7,16,232	22,93,044
III—*Metals*—		
Steel Bars	51,229	11,401
Hoops	48,501	13,684
Tubes	41,356	9,556
Corrugated Sheets	32,290	715
Iron and Steel Beams, Bars, Girders, etc.	26,378	19,775
Sheets	32,982	9,897
Zinc	21,339	37,592
Nails, Rivets and Washers	15,297	8,077
Steel Angles and Tees	14,336	518
Bolts and Nuts	10,550	4,825
Copper and Copper Sheets	8,106	40,224
Brass Sheets, Rods etc.	8,029	15,853
Tinned Sheets	7,450	25,949
Wire Nails	6,234	10,299
Fencing	4,334	1,073
Tin	2,901	2,021
Aluminium	2,469	9,452
Lead	...	8,248
Metals and Ores unenumerated	...	2,68,277
	3,34,961	4,97,436
IV.—*Textiles*—		
Raw Cotton	1,34,451	1,61,702
Cotton Piecegoods	87,948	21,160
Cotton Waste and Yarn	9,820	5,000
Artificial Piecegoods	8,928	...
Raw Wool	3,649	6,473
Woollen Yarn	2,906	900

	1937-38 Tons	1948-49 Tons
Woollen Blankets	2,327	1,200
Silk Piecegoods	2,041	1,700
Artificial Silk goods mixed	1,790	50
Raw Silk	1,131	5,000
Sewing Thread	722	900
Woollen goods mixed	714	1,100
Silk goods mixed	625	250
Artificial Silk Yarn	357	17,844
Woollen Piecegoods	134	1,000
Cotton Blankets	50	100
	2,57,593	2,24,379
V.—*Paper*	1,71,936	1,30,273
VI.—*Hides and Skins (raw)*	...	3,405
VII.—*Chemicals & Chemical products*—		
Manures	53,216	1,78.364
Starch	42,088	43,810
Barks for Tanning	17,600	12,570
Tallow and Stearine	11,208	3,090
Cutch and Gambier	...	2,560
Green Resin	9,485	16,000
Soap	2,097	...
Beads and False Pearls	1,118	...
Caustic Soda	924	91,590
Sodium Carbonate	72	1,62,515
Sulphur	...	38,330
Other Chemicals	...	10,000
Quinine	47	110
Coal-tar-dyes	8	6,665
Camphor	1	61,930
Lac	...	5,918
	1,37,864	6,33,452
VIII.—*Building Materials*—		
Asphalt	50,249	47,110
Cement	24,991	1,46,163
Stone and Marble	...	5,778
Asbestos Raw	...	5,000
Wood and Timber	...	61,748
	75,240	2,65,799
Total ...	49,15,642	63,35,122
N.B.—As about ¼th of the value of the total is covered by articles of merchandise not mentioned ¼th of the total tonnage to be added	12,28,910	15,83,780
Grand Total : Imports ...	61,44,552	79,18,902
Exports ...	87,50,957	47,75,611
Imports and Exports ...	14,895,509	12,694,513

THE INDIAN ROADS OF TRANSPORT DEVELOPMENT ASSOCIATION LTD., BOMBAY

LONG DISTANCE TRANSPORT OF GOODS BY ROAD

FINANCIAL LOSSES TO GOVERNMENT AND OTHER DANGERS OF RESTRICTION

At the outset the Association would most strongly deprecate any spirit of hostility between roads and railways. They are both out to serve the Indian public. The sole aim should be efficiency of the methods of transport. Each method of transport is supplementary and complementary to the other.

The Association feels that the recommendation made in October 1945 by the Transport Advisory Council in regard to the restriction of goods traffic by road will be detrimental to Government Revenues and to the interests of the public. The restriction envisaged is that permits for distances exceeding 100 miles should not be issued in the ordinary course and those for distances of between 50 and 100 miles should be scrutinised with care (or in other words discouraged).

Financial implications.—The Association understands that the restrictions have been recommended on the assumption that the additional traffic that they will create for the railways would bring additional revenues to the Government of India. The assumption however is not correct because road transport, as yet in its infancy, represents a much more valuable and a more-expanding source of revenue to the Government of India, than Railways, in normal times. For example, in the 10 year period from March 1930 to March 1940, Central revenues from motor transport rose from Rs. 4.3 crores per year to Rs. 9.1 crores (as follows) and this cannot but increase at a much greater rate when the present plans for road development are completed.

Central Revenues from motor transport
(Rs. Lakhs)

Year	Import duty on motor Vehicles & parts	Duty on pneumatic tyres & tubes	Excise and import duty on petrol	Total
1929-30	96	37	297	430
1939-40	153	29	729	911

In the latter year, after a transfer of Rs. 1.8 crores to the Road Development Fund, the remainder of Rs. 7.3 crores represented the Central Government's nett revenue from road transport. In addition, the Railways themselves receive large amounts from the carriage of petrol for motor transport (e.g. Rs. 1 crore before the war).

This revenue to the Central Government is of course in respect of all forms motor traffic and is not confined to goods transport alone; but it is interesting to compare this revenue with the estimate made by the Railways themselves of the loss of railway traffic to the roads. The report of the Indian Railway Enquiry Committee (Wadgewood Committee) 1937, states in Chapter VI, Page 102, that the evidence, placed before the Committee by the Railway Administration indicated a loss of something like 4½ crores (this is the estimate of the *gross traffic* revenue that would have come to the Railways if road competition was completely non-existent and not of the Railways profit). The Committee proceed to say :—

> "This total was made up of Rs. 3¾ crores in respect of passenger traffic and Rs. ¾ crore in respect of goods traffic, and included losses due to reductions of rates and fares introduced in order to meet road competition."

These figures are self-explanatory and prove that the Central Government's revenue from road transport is many times greater than the loss suffered by the

Railways from road transport competition; for, if from the traffic of Rs. 4½ crores mentioned by the Railways, we deduct the petrol traffic of Rs. 1 crore, the nett loss of traffic is only Rs. 3½ crores, and indeed if Railways do regain this traffic, the nett profit to them from it would only be a small percentage of the figure of Rs. 3½ crores; while the revenue from road transport to the Central Government was in 1939/40, Rs. 7.3 crores *nett* as explained above.

Another point to be noted from these figures is that the loss of goods traffic to the Railways is very negligible, being not more than Rs. ¾ crore in respect of both long distance and short distance hauls. Nobody, in the absence of definite traffic surveys, can of course assert what proportion of the goods traffic by road can be classed as long distance traffic, but it can be very safely assumed that in this figure of Rs. ¾ crore, the proportion of long distance traffic will not exceed 25 per cent.

The foregoing will serve to prove that there is nothing to be gained financially by restricting long distance road transport; in fact by restricting road transport, Government revenues stand to suffer a considerable loss.

It may be that the assumption which has apparently been prevalent for some time, to the effect that Government will improve its revenues by restricting road competition, is too deep-seated to be shaken off easily. We think however that a further analysis is possible of Government's road revenue and railway revenue (from goods traffic) on a ton mile basis. The Central Government's Post War Technical Sub-Committee, in its report on "The Future of Road Transport and Road/Rail Relations" (November 1943) states in Chapter V that out of the tax paid by motor goods transport, amounting to more than 6 pies per ton-mile, a charge of between 1.24 and 1.65 pies per ton-mile suffices to cover the fair share of such transport towards the provision of the road. The Government therefore at present gets a minimum profits to general revenues of 4½ pies per ton mile from road transport.

On the other hand, if the Railways make a normal contribution of 1 per cent. of their capital at charge to the Central Revenues, this will come to Rs. 8 crores and their ton-mile contribution can be worked out as under. Goods traffic accounts for two-thirds of the earnings of the Railways; so, out of the contribution of Rs. 8 crores the share of goods traffic will be Rs. 5.3 crores. The pre-war goods traffic of Railways was 22.159 million ton miles and thus per ton mile, the railway contribution comes, on an average, to less than half a pie or less than one-ninth of that of road transport.

It may be that on the traffic sought to be diverted from the road to the rail the profits derived by the Railways will be greater, because it may consist, in part, of high-rated commodities, but it must be remembered that the bulk of road traffic has come into existence solely because of the special facilities provided by the motor vehicle and with the prohibition of road transport, such traffic will automatically dry up, leaving only a small portion available for diversion to the rail. Thus if a certain quantity of goods is transported between two given points by road, prohibition of road traffic may extinguish say half of it and divert merely the remaining half to the rail. And of this half, if say 25 per cent. consists of high rated commodities on which the Railways may be able to make profit of as much as one anna per ton-mile, the Government would still *lose more revenue* through road transport prohibition than would be gained jointly by railways and the Government in the process. The following is a rough calculation on an assumed long distance road traffic of 1000 ton miles :—

With no prohibition of Road transport

Road transport revenues to Government on conveyance of 1,000 ton-miles of goods by road @ 4½ pies per ton mile	Rs.	23	7	0
With prohibition of Road Transport				
Traffic available for diversion to the rail	500 ton miles.			
High rated traffic in the traffic diverted	125 ,, ,,			
Railways' profit @ 1 anna per ton-mile on high rated traffic		7	13	0
Add Railway contribution to Central Revenues on all the 500* ton-miles @ ½ pie per ton-mile		1	5	0
Total profits to Railways and the Central Government		9	2	0

* The comparison is between 1,000 ton-miles by road and 500 ton-miles by rail, because should restriction of road transport be carried through, the remaining traffic of 500 ton-miles, as explained ealier will not exist.

We submit therefore that the loss to the Central Government revenues through the prohibition of long distance road transport would be more than double the income that might be derived by the Railways through such prohibition.

Other considerations.—Apart from the financial losses entailed in the restriction of road transport the following weighty reasons show that the proposed restrictions are harmful and inadvisable.

As quoted by the Post-War Technical Sub-Committee in its report on Road/Rail Relations (November 1943), the function of the State is not to maintain the status quo or to favour one means of transport at the expense of another, but to create the requisite conditions for securing the maximum efficiency of all means of transport and to further their evolution in the interests of the general welfare of the community and of technical progress.

Restrictions imply an overabundance of road service facilities, but the position in India is just the reverse. Taking motor trucks in particular, India has no more than 7 trucks per 100000 of the population, the corresponding figures for the United Kingdom and the U.S.A. being 1200 and 3300. It is clear that, if we are to make any progress, there must be an expansion of modern means of transport in the country and our transport policy must be such as to encourage many thousands of new motor vehicles to be pressed into service.

Road/Rail competition in India is less than 5 per cent. of that in England and the U.S.A.

Examining the volume of motor transport competing with railways, the position is no less striking when we compare India with other progressive countries. The extent of road competition with railways is best judged by the number of motor trucks in operation in country as compared with the country's railway mileage and the following figures tell an impressive tale :—

Country	Railway Mileage	No. of goods lorries	Lorries per mile of Rly.
U.S.A.	248,825	4,054,332	16
Gr. Britain	20,403	494,866	24
India	40,525	28,000	0·7

Indian Railways are experiencing from motor transport less than 5 per cent. of the competition which Railways are encountering in the U.S.A. or Great Britain, in the carriage of goods. And neither of the latter countries has placed any mileage restrictions on road goods vehicles.

U.S.A. gives further Encouragement to long Distance road Haulage.

In fact, far from discouraging competition of the road with railway, the U.S.A. now proposes to give further encouragement to long distance road haulage by constructing 34,000 miles of super-highways, closely analogous to Railways. These highways will be for the exclusive use of long distance traffic and will permit truck trailer combinations or road trains of a length of up to 60 feet to operate at a speed of 60 miles an hour. This is an instance of how that country always tries "to secure the maximum efficiency of all means of transport and further evolution in the interests of the general welfare of the community and of technical progress".

How other Countries are Securing Road/Rail Co-ordination

The approach of other countries to the question of road/rail coordination is quite different to that recommended by the Transport Advisory Council. Foreign Railways too, like those of India are handicapped by their rate structure in competing with road transport but instead of endeavouring to eliminate competition they are adapting themselves to changing conditions. In pre-war Netherlands and Germany for instance, Railways like road transport

were charging a flat rate for consignments of less than 5 tons while Italy met the situation by effecting a rate reduction of 20 per cent. for the highest classes of goods. Similar steps are open to the Indian Railways.

The Official policies of the United Kingdom and the U.S.A. in respect of transport co-ordination are as follows :—

United Kingdom.—The Transport Advisory Council, in its Report on Service and Rates, published in 1937 has laid down that :—

"the best line of approach to achieve co-ordination is to aim at securing for traders adequate alternative facilities, care being taken to see that the resultant competition is on fair terms, and there should be an unfettered right on the part of the trader to select the form of transport which he approves and which is most convenient and economic for his purposes.

More recently i.e. in July 1946 the British Railway Companies and the British Road Haulage Association submitted a memorandum to the Minister of Transport, the terms of which are approved in principle by National Associations of Traders and Industrialists. The following are the fundamental general principles of the Scheme.

(i) That the public should have an unfettered right to select the form of transport which is the most convenient and economic for their own requirements;

(ii) That road and rail services should be so organised as to ensure that so far as is practicable traders are provided with adequate alternative facilities with competition on fair terms :

(iii) That road and rail transport should have like public service obligations.

U.S.A.—The United States Government in a reply to the League of Nations in 1936/37 stated :—

"It is a fixed policy of the United States Congress to preserve competition, not only between the different forms of transport but also within a given form of transport. Thus.................it is provided that competition shall be preserved as fully as possible and whereever practicable the existing routes and channels of trade and commerce shall be maintained."

Indian Railways already subsidised through high road taxation.

It is submitted that Indian Railways, unlike Railways in other countries are already very fully protected against road competition by the heavy taxes on motor vehicles and motor fuel which render the cost of road transport very expensive in comparison with railways. As pointed out earlier, the taxes on motor transport amount to more than 6 pies per ton-mile of goods carried, while less than 25 per cent. of these taxes will cover the cost provision of the road for the motor vehicle. The Government therefore at present gets a minimum profit to general revenues of 4½ pies per ton-mile from road transport. When we consider that the average cost of railway transport is 6 pies per ton-mile, the extent of the indirect subsidy already afforded to railways through road transport taxation stands out in bold relief.

Railways also subsidised through cheap transport of coal.

This is not the only advantage that the railways get over road transport. Roughly 20 per cent. of the total railway goods traffic is made up of coal for the Railways' own use and this is carried at less than half the actual cost of transporting it. In 1937/38 for instance—a normal pre-war year—4311 million ton-mile of coal were carried for the railways, at less than 2½ pies per ton mile, the actual charges being Rs. 5.3 crores. The difference between the charge made and the actual cost of carrying this coal may be taken to exceed Rs. 6

crores and this is equivalent to an indirect subsidy for railways. The loss incurred in carrying this coal is made up by higher rates on other commodities. Motor transport on the other hand has to pay very high charges for transporting its fuel, petrol, on railways.

The Motor Vehicles Act has eliminated uneconomical competition

An argument adduced by the Technical Sub-Committee to show that motor competition is wasteful is that in 1938/40 road rates where advertised for distances upto 1500 miles, averaging about one anna per ton-mile which could only have been possible with overloading and finance by bankruptcy. The Association submits that the remedy for this is not the prohibition of road transport, but the prevention of over-loading, together with the encouragement, for long distance haulage, of stable and organised concerns who cannot afford to finance themselves by bankrupt methods. In fact, such uneconomical competition as did exist prior to the war which was occasioned by the absence of adequate regulation of road transport has been put a stop to by the Motor Vehicles Act which came into force in 1940. Any expansion of motor transport that may be expected hereafter cannot, under any circumstances, lead to the road competing uneconomically with the Railway.

Healthy Road/Rail Rivalry essential.—Healthy rivalry between transport agencies is the most effective way of promoting efficiency in transport services, while a monopoly cannot but lead to stagnation and want of enterprise. It is only through rivalry that the public can be assured of the maximum efficiency in service at minimum cost. An organisation that is faced with the unenterprising routine of a monopoly losses ultimately its initiative and the urge for greater efficiency. It is common knowledge that it was the stress of road competition that, more than anything else, led to the adoption of measures by Indian Railways for the stepping up of their efficiency before the war. If road transport on long distances is suppressed resulting in the creation of a monopoly for the railways, the result cannot but be a tremendous loss in transport efficiency as judged in the interests of the country. For this reason, neither is it advisable for the railways to have a monopoly of long distance services nor for the roads to have an enforced monopoly of short distance traffic.

Special advantages of road transport on routes of upto 225 miles.

Transport is not a service to be provided regardless of individual needs. The individual, be he a trader, former, industrialist or private citizen must have freedom to choose the means of transport he finds most convenient for his purposes. This is his inalienable right. Transport should be the servant of the community, and any restrictions on the community's freedom of choice is bound to increase costs of production and distribution and stultify the country's progress towards economic advancement.

Competition between road and rail is in much the same category as that between the postal and telegraph services. A person wanting a quick means of communication resorts to the telegraph office in preference to the postal system, but nobody would suggest that the two services represent a wasteful duplication of facilities. In the same way a person makes use of the road in preference to the rail and *vice versa* according to his needs; and the national interests of the country require that such alternative facilities, subject to the effective regulations now obtaining under the Motor Vehicles Act, should be maintained and encouraged.

It is the Association's belief that such discussion as has taken place between the Centre and Provinces so far has unfortunately not been confined to the merits of the question. Provinces apparently felt that the acceptances of the "Code for regulation of road transport" was one of the conditions attached to the transfer of National Highways to the Centre and the feeling was thus produced that unless the Code was accepted, Provinces would not be eligible for the financial assistance they expect to derive through being relieved of responsibility for National Highways.

This impression, we feel should be corrected if there is to be no appearance of compulsion in regard to the acceptance of the Code. In fact the assumption of responsibility for National Highways by the Centre is proposed as part of the Central Government's contribution towards post-war development in the provincial field and in particular to enable the provinces to concentrate on the development of district and village roads which have been neglected in the past.

For the above reasons, my Council submit that Government's policy should be free from any intention to favour or handicap one form of transport in relation to another form. The object of any policy should be the provision of efficient transport to the public so as to enable the country to enjoy those benefits from technical progress in the means of transport such as England and America are harnessing to economic development of their countries.

Government regulations should not handicap either the road or the rail in operating in fields in which it is supreme, *viz.*, Railways for carrying heavy loads in bulk over long distances and the road for door-to-door conveyance of smaller consignments requiring quick transport and careful handling within distances which it can serve more efficiently than the rail.

The assumption of the Transport Advisory Council that the distance within which the motor vehicle can render a service superior to the railway is generally no more than 100 miles and often limited to 50 miles is not correct. The door-to-door service afforded by the motor vehicle eliminates at least four additional handlings at railway terminals, i.e.

From the road vehicle to the goods station and from the goods station to the Railway Wagon.	*At Rly. Terminal No.* 1

as also

The unloading at destination and Loading on to the Road vehicle.	*At Rly. Terminal No.* 2

Besides avoiding risk of damage to the goods handled and saving the cost, of such handlings and of the transport to and from railways terminals, road transport it quicked than rail, feeds the consumer according to his capacity to consume permits considerable saving in packing and affords the consignor full control over the goods until they reach the destination. Thus, flexibility, safety, economy, speed and convenience some of which are illustrated in certain examples quoted in the Mitchell/Kirkness Report (Bengal section)—make up the technical progress represented by the motor vehicle and render the road service pre-eminent among the agencies of transport for any distance a vehicle can cover in a day. This distance on a conservative estimate can be computed at 225 miles.

Conclusion.—We submit therefore that, far from the Government benefiting financially through restricting road transport, the result of any restriction will be to create a loss of revenue to the Central Government. In addition, there is bound to be immense loss to be country in the field of economic development *through,*

(a) the public being deprived of

(i) the benefits of technical progress and

(ii) the right to employ the method of transport most convenient for their purposes, and

(b) the various means of transport losing the initiative, provided by healthy rivalry, to improve their services,

In view of the foregoing, the Association submits the following recommendations :—

(i) There should be no mileage restrictions on public transport of goods by road.

(ii) If road services are to be grouped into "short" and "long" distance services covering a radius of 225 miles from the centre of

operation, representing a day's distance by motor lorry, should be classed as short distance and such services should be encouraged.

(iii) If it is felt that the railway rate structure gives any advantage to competing road transport, the advantage could be nullified by so revising the rate structure that freight rates do not generally exceed those for equivalent road transport. Actually the number of commodities for which the Railways charge any rates, higher than those of motor transport, is very small, because motor transport even in pre-war days was costing between 1½ & 2 annas per ton-mile, whereas the average cost of railway transport does not exceed ½ anna per ton-mile. The fact that road transport is still in demand proves that people are prepared to pay extra charges for the speed and convenience of such transport.

(iv) However, so that road rail competition on long distances might be maintained on healthy lines and strictly on the basis of service, we suggest that in place of a mileage restriction, holders of public carrier permits covering a radius of over 225 miles, might, if necessary, be subjected to a restriction that they should not underquote actual railway rates on parallel routes of an equal distance.

THE INDIAN ROADS AND TRANSPORT DEVELOPMENT ASSOCIATION LTD., BOMBAY

The object of this memorandum is to invite the Commission's attention to the very grave handicaps suffered by commercial, industrial and agricultural activity in the country on account of :—

(a) the appalling inadequacy of road communications, and

(b) the absence of conditions favourable to the provision of cheap or economical transport by road.

A. Road Communications.

It is unnecessary to labour the point that the economy of any country evolves around transportation. Means of transport include Road, Rail, Water and Airways but Roads are fundamental to all movement. All other forms of transport—rail, water and air—need a good network of roads radiating to and from their railheads, docks and aerodromes to operate successfully. Roads have therefore a special importance of their own and especially under the growing needs of the present day, their importance is of great magnitude, and the efficiency and adequacy of the road system are fundamental to the whole economy of inland transport. Particularly as India is a Land of far-flung and scattered villages where the rural community represents 85 per cent. of the population, good road communications are of permanent national importance.

In primary transportation our equipment is 10 *per cent. of that of U.K.*—Statistics will show that we have no more than one-fifth of a mile of road per sq. mile of the country's area, as against 2 miles of roads in a country like Gt. Britain. So in the field of primary transportation our equipment is no more than one-tenth of Gt. Britain's. Our deficiency is equally severe if we consider road lengths in relation to population as the following statement will show :

Country	Road mileage per sq. mile of area	Road mileage per 100,000 of population
Japan	3·98	850
U. K.	2·02	393
France	1·88	980
U. S. A.	1·00	2500
Germany	0·95	360
Italy	0·75	217
Including cart tracks & horse paths—India	0·22*	89
Excluding Ditto	0·15	61*

Roads, in this Association's opinion, constitute the key to the unlocking of the country's vast potential industrial wealth. One of the foremost handicaps to increased output, both in industrial and agricultural fields is lack of road communications and consequent inaccessibility of cultivable lands and industrial raw products. A road system is one of the essential tools of production because every effort to stimulate industrial enterprise, to encourage cottage industries or to intensify agricultural operations postulates facilities for the movement of raw materials and finished goods between potential sources of supply and production and then to consuming centres. On the other hand, hundreds of our villages remain unconnected with the road system —and therefore cut off from other means of transport also—and economic activity in those areas is practically at a standstill. Only when men and materials can move about in such isolated areas can the vast economic and industrial potentialities of the country be fully exploited.

Industries are handicapped by excessive cost of transport.—Thus the industrialisation of the country depends to a large extent on the provision of additional transport facilities. Nothing can be of greater benefit to the development of industry than low transport costs. These transport costs enter into the costs of production at every successive stage, into everything made in the factories, everything that comes from the farms or market gardens or fisheries and everything dug from the mines and quarries. In actual fact, transport costs sometimes exceed by a large margin the cost of the article itself. At the present moment high transport costs and lack of access to sources of raw materials handicap India very severely. There is neither a trade nor industry in this country which is not suffering in some marked degree from shortage of transport and is excessive cost.

Better Roads can save Rs. 55 crores annually in costs of bullock cart transport.—It is recognised that the bullock cart is still the basic transport vehicle of India and it may remain as such for many decades. At the same time the bullock cart is a much more efficient vehicle on a good surface than it is in a field track. Not only in respect of the load it can carry but in the speed at which it can cover the ground, the number of ton-miles lost to India each day by bullock carts travelling on poor surfaced tracks is colossal. In other words the lack of metalled roads, for the use of bullock carts, represents high cartage charges for industry and acts as a grave deterrent to industrial expansion.

A comparison between cartage costs on metalled and unmetalled roads appeared on pages 84/85 of the Report of the Indian Road Development Committee, 1927-28. The relevant para states :

> "We understand that in the Lahore district it costs Rs. 3 to cart 100 c.ft. of road-metal for the first mile of a metalled road and Rs. 4 on an unmetalled road, and for the succeeding miles the rates are Rs. 1-8-0 and Rs. 2 respectively. 100 c.ft. of metal requires about four carts. It might therefore be argued that a metalled road probably saves the cultivator two annas a mile on every trip his cart makes. If account were taken of the enormous "mileage covered by cultivators' carts in moving crops to market, the financial saving to the country by a developed system of roads might perhaps be dimly guessed at".

The financial savings to the country in cart operation through better roads indicating the magnitude of the stimulus that industries would derive thereby can be roughly estimated in the following way. India's road system (pre-partition) consisted of 299, 720 miles of roads, of which 97,547 miles were metalled and 202,173 miles (over two-thirds) were unmetalled. The number of bullock carts in India is 87.15 lakhs. If we therefore assume that 50 lakhs of bullock carts ply on unmetalled roads and, to be conservative, they operate for 90 days in a year travelling 10 miles per day, it will be seen that a metalled system of roads could save the country a sum of over Rs. 55 crores a year.

Thakurdas Committee urges that lack of roads which is a deplorable defect in economic structure should be immediately set right.—The demand today is that the distance between sources of raw materials and factories and between

the latter and the consumers, should be shortened both in time and cost, and to a country desiring to increase its annual output, quick transport between these points is an imperative necessity.

These remarks are borne out by the findings of the Bombay Economic & Industrial Survey Committee of 1939/40 whose chairman was Sir Purshotamdas Thakurdas. The report of the Committee states that one of the factors responsible for the backwardness of the Province in the realm of industrial development is that different centres of consumption and of production are not connected by reasonable transport facilities with one another. Large numbers of villages are not connected by road with urban centres or railway stations. Over 40 per cent. of the total area during fair weather and upto 80 per cent. of the area during the monsoon is completely devoid of road communications in many districts. The injurious effects of inadequate transport facilities, the Committee state, can find no better illustration than the district of North Kanara which, in spite of vast resources of raw material and power, remain a backward area with a declining population. "Something has to be done" add the Committee "to increase and improve the transport facilities in the province if the pace of industrialisation is to be perceptibly quickened.......................... We cannot sufficiently emphasise the imperative necessity of Government setting right this deplorable defect in the economic structure of the province from the point of view of both its agriculture and its industries".

The Committee have in no way over-stated the drawbacks suffered by our potential industrialists. Today the waste of time, money and energey involved in moving a cart in the heart of rural areas is simply enormous. The spectacle of a bullock cart having to be escorted by two or three attendants, in addition to the cart driver, to prevent the vehicle tumbling down over narrow tracks, one side of which is at places at a level of 2 or 3 feet above the other, is not at all an unusual one in certain areas of the country. Even so, thousands of villages are cut off from the outside world during the four or five months of the monsoon.

National Planning Committee urges construction of rural roads.—Attention to this matter was also drawn by the National Planning Committee in 1940, under the chairmanship of Pandit Jawaharlal Nehru. A resolution of the Committee stated :

> "One of the most considerable handicaps of the existing economy of India is the lack of cheap adequate transport service in rural areas which it is considered, is likely to be provided by a better development and use of the roads as between the villages as also those connecting the villages with markets".

Rs. 5½ crores can be saved in industrial costs, through road development in the field of motor transport.—High transport costs due to an inadequate and unsuitable road system impede industrial expansion equally severally where conveyance of goods by motor lorries is concerned. The Indian Road Development Committee state on page 33 of their report :

> "The effect of road surfaces on running costs is not perhaps fully realised. No accurate figures appear to have been calculated in India. But the following extract from an American bulletin (with cents reduced to annas and pies at the rate of 1 cent=6 pies) may be taken as a basis of comparison :—

	Cost of running per mile for a motor car travelling at 25-35 miles per hour. As. Ps.
1. Best Portland Cement concrete and asphalt filled brick	4 8
2. Best graved, yearly average	5 5
3. Ordinary	5 11
4. Weterbound macadam, well maintain	5 7
5. Bituminous Macadam well maintained	5 4
6. Average sheet asphalt	5 0
7. Best earth, well packed by traffic, yearly average	6 0
8. Ordinary earth with light traffic yearly average	6 4

These figures, which allow for depreciation, repairs and wear and tear tyres as well as for the consumption of petrol and oil cannot be applied to India without many reservations, but the difference in the cost of running over good and over bad roads in India is possibly not less than is represented by them. If they are taken as they stand, it appears that the cost of running a car for twenty miles over a bad unmetalled road is two rupees more than the cost of running over a first class surface."

The Provincial Motor Transport Controller, Bombay whose Department is in charge of the nationalised passenger bus services in the Presidency has recently stated that if better roads are provided, the cost of operation of buses can be reduced by three to five annas per vehicle mile. The same saving necessarily applies to goods vehicles and if industry has good roads at its disposal the savings in transport costs that industrial undertakings will be able to effect are considerable. For example, if we assume that out of the existing 46,000 trucks in the country, some 30,000 are serving industry and each of them operates approximately 10,000 miles annually over bad roads, the savings possible through an improved road system are as under :

Per vehicle		Rs.
10,000 miles at 3 as. per mile	... ...	1875
Saving on 30,000 vehicle annually	... ...	5.62 crores

Cheap motor transport is of fundamental importance to large scale industries and the provision of good roads will therefore constitute a great stimulus to industrial expansion.

Roads alone can encourage small scale industries.—Just as a river enriches the whole terrain through which it passes, so also, when an industry grows up an area, the resultant prosperity permeates to all in the neighbourhood and there is a general rise in the standard of living. Instead of excessive localisation in a few belts of the country we have to ensure that the growth of industry is diffused as widely as possible. Road development alone can achieve this. There are hundreds of small scale industries which will receive an impetus the moment more and better roads are provided. To mention only a few, these include the manufacture of jaggery and sugar, dehydrated vegetables, fruit products, milk products, tiles, bricks, handloom and cloth weaving, metal ware, coir products, wooden implements, cane and bamboo wares, paper pulp, strawboard, glue, etc., etc.

Rural Roads will return Rs. 277 *for every sum of Rs.* 100 *spent on them.*—It may be useful to mention here that at the request of the Government of India, the Indian Roads and Transport Development Association carried out a "Pilot" Road Survey of certain small areas of Bombay Province in 1943, for the sake of evaluating the economic gain conferred by an adequate road system on the community and its relation to the cost of constructing and maintaining the roads. The survey which was carried out with the fullest co-operation of the Provincial Government, the Director of Agriculture and local bodies and local officers of the area concerned, showed that financial benefits to the community would occur under three main heads—increase in land under tillage, greater cultivation of money crops including fruits and vegetables and savings in transport costs. In the selected areas, the financial benefits to the community under these three heads were estimated at Rs. 12 lakhs per year, whereas the necessary roads including satisfactory maintenance for 20 years would cost less than Rs. 4½ lakhs annually, including 3½ per cent. interest on a road loan redeemed in these 20 years. Thus for every 100 rupees spent on roads, the return through increased earnings to the community would amount to Rs. 277. This is independent of the inevitable rise firstly in the revenues to Government from various sources such as land revenue, income tax and motor transport taxation and secondly in the additional traffic with which roads would feed the Railways. A still greater asset would be the social advancement of the community through educational progress, provision of health services, personal enjoyment and the provision of the many other amenities of civilization, not capable of measurement in terms of rupees, annas and pies.

Roads will help the "savings Habit" by assisting Banking business.—Road development can help industries, not only by facilitating production and transport but also by raising the tempo of several ancillary measures that create conditions favourable to expansion of industries. For example one of the measures suggested by the Central Advisory Council of Industries in July, for aiding industrial activity, was that the habit of saving and investment should be inculcated by inviting five or six leading commercial banks to establish about 200 branches each in rural areas. Here the link between banking and roads will be apparent on a little reflection. As these new banking offices, numbering 1000 or 1200 in all, would be additional to the existing banks, it seems clear they would have to be located at many small town-lets which are very poorly served by roads. In any case, since a bank cannot be located in each of the six lakhs of villages in the country, it is intended that the people of each village should deposit money in the bank situated in the nearest town. But if there is no good all-weather communication between the village and the bank, to enable speedy travel for the constituents of the bank, who may want frequently to deposit money in their accounts or make withdrawals therefrom, it would certainly be impossible to persuade the village-folk, with all their conservative ideas, to have anything to do with banks.

The same relationship between roads and other factors contributing to industrial promotion can be traced if they are carefully examined.

Road Plans.—Road Development, it was expected, would receive a fillip with the inauguration of the Central Road Fund in 1929. The Fund which was constituted on the recommendation of the Road Development Committee, 1928, is fed by a share of the Central Excise/Import duty on petrol, this share being 2½ annas per gallon at present out of the total duty of 15 annas. However, although the Fund was formed for supplementing normal road expenditure, it was accompanied by diminution of grants from provincial revenues with the result that the total road expenditure in the country, instead of recording any increase, diminished substantially for about a dozen years despite the existance of the Fund, and the condition of the roads began to deteriorate. In the interval, following the Road/Rail Conference of 1933 when the principle of road construction from "capital" was advocated by the Finance Member, many provinces drew up plans for a capital programme but they were later dropped on the plea of financial stringency.

Road Planning was revived by the Nagpur Conference of Chief Engineers in 1943 and we have now before us the Nagpur Plan which envisages the improvement of the existing road system of roughly 300,000 miles and the addition of 100,000 miles of new roads. (These figures are for pre-partition India including Indian States). The Nagpur Conference recognised that no single factor can contribute more to the prosperity of India than an adequate road system. The authors of the plan also recognised that ultimately savings in transport costs through road development would outweigh the cost of the plan and in addition Government revenues from road transport would register a steep rise, so that road construction is as good an investment as that on railways or commercial undertakings. The fact that the present revenue from motor transport is roughly Rs. 19 crores annually as against Rs. 9 crores prior to the outbreak of the war is significant in this connection. One can easily expect this revenue to increase to Rs. 45 or 50 crores annually if the Nagpur Plan is completed, accompanied by better supplies of petrol.

15 *year's road transport revenue would meet entire cost of Nagpur Road Plan.*—The framers recommended completion of the works in 10 to 15 years. The cost of the plan was estimated at Rs. 300 crores at the pre-war level of prices. At the present levels, it would perhaps cost about 700 crores—an amount which increased road transport in the country, to be fostered by the new and better roads would itself contribute through revenues in a period of roughly 15 years.

There should thus be no hesitation in investing the above sum on road development but unfortunately the Provincial Governments as well as the Government of India have been constantly reviewing their portions of the programme and, with each revision, the chances of the allocation of adequate funds for the execution of the plan are receding.

Provinces are curtailing their road programmes.—It is true that by the middle of 1946, all Provinces, as well as the Government of India were ready with the first five year plan. The total cost of these plans was estimated at Rs. 183 crores, made up of Rs. 36 crores for National Highways which have been taken over by the Government of India, effective from April 1947, and Rs. 147 crores for other roads under the charge of the Provincial Governments. (The mileage of National Highways is roughly 14,000 or roughly 5 per cent. of the total mileage).

This programme, in itself but an instalment of the minimum road requirements of the country, has however, been subjected the axe. Today the plan stands reduced to a figure of Rs. 112 crores representing a reduction of Rs. 71 crores over the 1946 proposals. Half of this reduction is attributable to the separation of Pakistan but the remaining half represents curtailment of the programme by some of our Provinces and by the Government of India. In particular the Provinces of Madras and Bombay have reduced their 5-year programmes from Rs. 20 crores each to Rs. 8 crores and Rs. 5 crores respectively, and there are now fresh talks of other provinces also reducing their present targets, the U.P. being a case in point.

Two and a half years of the 5 year period covered by this first instalment of the Nagpur Plan have now elapsed and there is little visible progress in most of the provinces. During this period a large portion of the funds which were allotted could not be spent owing to shortages of materials and delays in final preparation of estimates, land acquisition etc. It is only just now that preparations for execution of work are coming into their stride.

Plan must be transformed into actual roads.—To have a paper plan like the Nagpur Plan does not serve our requirements. It is only by the translation of the plan into actual roads that industry can benefit. The present five-year plan is mostly confined to bridging, construction of small missing links in the road system and generally arresting in parts the deterioration of roads caused by previous neglect combined with war time increase of military traffic.

Additions proposed to the existing mileage at present are insignificant. It is in the remaining parts of the Nagpur Plan that the actual expansion of the road system is to be undertaken. Seeing that the present five-year instalment of the programme constitutes no more than one-fifth of the Nagpur Plan and the implementation of this instalment depends on the promised financial allotments actually materialising in the next few years and seeing also that no definite commitments have been made by Governments regarding the remaining four-fifths of the Plan, nor are there special non-lapsing funds earmarked for this programme, this Association would stress the need for the Fiscal Commission emphasizing the paramount importance of road development in their Report and giving it top priority among the steps to be taken for industrial expansion in the country. To this end, we make the following recommendations :—

(1) The Provincial Governments and the Government of India should be requested to restore the cuts recently made in their road development targets covering the current 5-year programme.

(2) These Governments should also be urged to undertake the remaining parts of the Nagpur Road Plan and complete the execution of the whole plan within the next 12½ years.

(3) Special non-lapsing funds from revenue or capital funds should be ear-marked for the execution of the Road Plan.

(4) Administrative arrangements for execution according to schedule should be perfected by the Provincial Governments since the present executive machinery in some provinces is inadequate.

(5) As, even after the completion of the Nagpur Plan, many villages in highly populated areas may be 2 miles away from a Road and many villages in other areas may be 5 miles away from suitable road communications, it is essential that villagers should be made road conscious and induced to construct their own approach roads with official encouragement and aid.

B. Handicaps on Motor Transport

1. *High & Irrational system of taxation.*—One of the factors contributing to the high cost of transport borne by industrial undertakings is the very high level of taxation on motor transport and more particularly the absence of correlation between the Central and Provincial taxes and lack of uniformity in the latter. Under the present system some provinces—particularly Madras—have imposed staggering tax burdens on motor lorries and buses; and there is a total absence of reciprocity in the levy of provincial taxes so that lorries operating on trans-border route have to pay taxes separately to every administrative unit into whose area the vehicle may enter.

First of all a comparison between motor taxation in India and that in other countries will be of interest. The following figures are based on a memorandum issued by the Indian Roads Congress :

	Expenditure on Roads	Motor vehicle taxation	Percentage of motor vehicle taxation to road expenditure	Taxation per motor vehicle
	Rs. Crores	Rs. Crores		Rs.
U.S.A. (1935) . . .	302	162	54	47·6
United Kingdom (1934) .	80	78·5	98	262
France (1932) . . .	53·6	36·5	68	212
Germany (1930/34) . .	48·3	46·3	96	222
India (1939) . . .	6	9	150	509

This statement shows that in 1939 when the petrol duty in India was 5 annas less per gallon than at present and when there were no provincial Sales Taxes on petrol, motor taxation represented 150 per cent. of road expenditure. A motor vehicle was taxed Rs. 509 in India annually, or nearly twice as much as in the U.K. and ten times as much as in America. The incidence of taxation in India has considerably increased.

2. In England, it may be mentioned, there is considerable agitation for a reduction to be effected in post-war taxation. It is pointed out that even before the war the taxes on motor transport were inflating the cost of carriage and having a restrictive effect on industry that apart from there being neither logic nor justice in selecting one form of transport to bear the burden of discriminatory taxation from which other forms of transport are exempt, the share of road costs directly attributable to the use of motor vehicles would be more than covered after making a very considerable reduction in the existing scales of tax. These remarks are, needless to say, equally applicable to India.

Motor transport pays 4 times its legitimate share of road costs.—Attached are extracts from a report of an official committee of "Future of Road Transport & Road/Rail Relations". They contain interesting comments on what would be a reasonable tax on road transport, to pay for its share of the cost of road construction and maintenance. It has been shown that a tax equivalent to 1.65 pies net ton-mile of load will be in equitable charge, as against a minimum of 6 pies (25 per cent. of operating cost) now collected.

3. The Report goes on to say that after meeting the share of road costs, motor transport pays 18 per cent. of its operating cost to the General Revenues of the country and as a measure of comparison, states that the equivalent contribution to General Revenues by Railways is 5.89 per cent. of its working expenses. While this would indicate that the rate of motor transport contribution is just three times that of the railways, we believe it is in practice much more, because the railway contribution consists in the main of the " 1 per cent. capital at charge" which is to come out of the profits of the railway operation and the equivalent of this in the road business is the income tax

paid by road operators which has not been taken into account. However we need not labour the point since the authors of the report admit that "the total taxation (on motor vehicles) is discriminatory and contrary to the principle that the function of the State is not to favour one means of transport at the expense of the other :

Forms of taxes levied.—Motor transport taxation at present consists of :

(*a*) *Taxes levied by the Central Government.*

	Revenue
	Rs. Crores
1. Import /Excise duty on petrol	10·30
2. Import/duty on motor vehicle parts & accessories	1·89
3. Excise duty on tyres	1·24
	13·43

(*b*) *Taxes levied by Provincial Governments.*

1. Provincial taxes on motor vehicles	2·58
2. Sales taxes on petrol and lubricants	3·76
3. Sales taxes on new motor vehicles (estimated 1949)	0·50
	30.27

(NOTE.—Revenue from petrol duties represents average of two years ending 31-3-46. Other figures are for 1945/46).

Taking India as a whole, the incidence of taxation on industrial haulage at present exceeds 8 pies per ton-mile of goods carried. What this means can be understood better by saying that the incidence of *Government taxation on motor transport by itself, exceeds the average amount charged for transportation on railways.*

The Association firmly believes that cheap transport is the *sine quo non* of the country's industrial prosperity and that India needs cheap road transport no less than cheap railway transport.

Anomalies of Provincial Taxes.—While this or the general picture, great anomalies exist between one province and another because of the independent powers of provinces to tax vehicles and petrol. The Provinces fail to regard the total taxation on motor transport as a correlated whole and the result is that the incidence of provincial taxes in one province—Madras—is nearly twenty times as heavy, or certain categories of vehicles, as the incidence in another province—Bengal.

The effect of certain provinces levying such intolerably heavy taxes is to raise the cost of road transport to such a high level as to frustrate, undermine and defeat all efforts that are made towards promoting agricultural and industrial production in the country.

The seriousness of the problem created by unregulated provincial taxes can be seen from the following figures showing the incidence of vehicles taxation in different provinces :

Province	Rupees per annum Provincial taxes on: Motor lorry capable of carrying roughly 3 ton loads	Motor bus seating 21 passengers
Madras	1173	2520
Bombay	440	400
Bihar & Orissa	300	358
Assam	220	150
C. P.	550	504
U. P.	195	186 to 397
W. Bengal	150	120
E. Punjab	200	165

To add to the complexity of the problem similar variations also exist in the provincial sales taxes on petrol; the highest being 6 annas per gallon and the lowest 1½ annas.

It will be seen from the above table that difference in taxation between a truck in Madras and the average truck elsewhere comes to roughly Rs. 870 per year. Therefore if a truck carries 60,000 tons of goods annually, with no petrol rationing it can carry only one-third of that with the petrol it now received—the Madras truck costs 2¾ pies per ton-mile more than its average. Counterpart in the rest of the country; and with rationing of petrol in force, the Madras truck *at present pays per ton-mile* 8 *pies more* in taxation than trucks elsewhere!

This Association believes that the best way of preventing the present abuses is to make motor vehicle taxation and petrol sales taxes a central subject with arrangements for the Centre to distribute the yield among the provinces. Taxation will then be uniform and the double taxation, which now impedes inter-provincial traffic, will automatically cease. This will be in consonance with and in fact appears to be a necessary corollary to the action Central Government has taken by way of transferring National Highways from Provincial to Federal ownership.

Until this is made central it should be definitely laid down that a single tax levied in the Province or State where the vehicle is registered should cover the operation of the vehicle anywhere in India and that no province or State will have the power to impose an additional tax.

II. *Restrictions under the Motor Vehicles Act.*—More serious than the high and irrational taxation of motor transport is the grave loss to industrial activity caused by artificial restrictions on road services under the Indian Motor Vehicles Act 1939, in consequence of which industry is denied the necessary measure of freedom to use road transport when and where required. Numerous artificial restrictions imposed under the provisions of this Act have throttled road transport during the past few years, placing a premium on the wastage of transport potential in spite of the serious shortage of transport which has been prevailing since 1940. We give below a brief analysis of some of the provisions of the Act.

First of all, Section 44 of the Act makes it obligatory for Provincial Governments to divide each province into a number of regional areas and to entrust the administration of the Act to the Regional Authorities in the respective areas. The effect of this, it is now seen from the experience gained during the past ten years, is to bring about forcible fragmentation of road transport.

Section 53 of the Act requires the Regional Authority to be satisfied, even when issuing a private carrier's permit, that the vehicle will not be used except in connection with the business of the applicant. Recent experience in the U.P. and elsewhere proves that Transport Authorities often take many months to convince themselves that a permit will not be abused. The result is that a businessman after applying for a permit for conveyance of his private goods has to wait for months to obtain the permit.

Section 53(2) of the Act requires that permits may define the areas in which they are to be valid, thus a Regional Transport Authority often restricts the use of the vehicle to particular sections of the region.

Section 55 of the Act requires the Transport Authority to consider whether the general interests of the public will be promoted by the issue of a public carrier's permit, and it further entitles other transport operators in the area to make representations to the Authority, opposing the grant of a permit. These provisions are very significant. As can be readily appreciated, a group of operators on a route may wish to obtain a monopoly for themselves and will naturally endeavour to put all sorts of obstacles in the way of a new comer. It is not surprising therefore that when an application for a permit

is made, other operators in the region may turn up to argue that the additional permit is not necessary. But even where no such arguments are advanced by the existing operators, there is no yardstick by which the Transport Authorities are to measure the interests of the public and it is not unusual to hear of rejection of applications on the plea that the issue of permits would not be in the public interest.

Further the Transport Authorities have power to limit the number of permits: and the impression has evidently gone round that because the Authorities have this power, they must, of necessity assume that most of the permits applied for are unnecessary. Some Authorities have gone further and, concluding that the saturation point in road transport field has already been reached, have announced that no new permits will be issued. Some other authorities h ve fixed ceiling limits specifying the numbers of vehicles, which they have laid down, should not be exceeded.

Section 57 of the Act lays down that an applicant for a public carrier's permit shall be made not less than six weeks before the date on which the permit is to be operative. The section also prescribes the manner in which all applications are to be published and objections invited.

It is the general experience that the issue of a permit generally takes 2 to 6 months.

Sub-section 2 of section 58 lays down that renewals of permits shall be treated as new applications for permits and therefore subjected to all the delays enumerated above.

Section 63 which is one of the most objectionable Sections of the Act states that a permit granted by the Authority of one region shall not be valid in any other region unless it is countersigned by the Authority, of that other region. The only exception is in the case of temporary permits where one authority with the concurrence of the authority of the neighbouring region may issue permits valid for the two regions jointly.

Although each Regional Authority takes at least 3 months to issue a permit there are provinces where an operator, who wants to return his services from one end of a provinces to another, is forced by the Act to approach each Regional Authority in turn so that it generally takes very nearly a whole year for a permit to be obtained, valid for the whole province. Surely nothing can scare away prospective operators from the transport field more effectively than a provision of this nature, particularly as in many provinces the duration of permits is limited to one year or less.

The very creation of numerous Regional Authorities within one province has created a vested interest in fostering the fragmentation of road transport. It is true that the Provincial Transport Authority in a province has the power to take into its own hands the issue of inter-regional permits but certain provinces have been content to leave the matter in the hands of Regional Authorities, thus placing inter-regional services at the mercy of a large number of Regional Authorities.

Inter-provincial permits.—The handicaps attendant on inter-regional services are intensified when permits of inter-provincial validity are required. After securing a permit valid up to the provincial border, the operator has to approach the authorities of other provinces or States for counter-signature of the permit. This accounts for the paucity of inter-provincial services, although the efficiency of many of our industries—existing and protential—is dependent on the existence of the quick and flexable means of inter-provincial transport that the motor lorry alone can provide.

Duration of Permits.—Finally another great deterrent to the expansion of motor transport is the practice of issuing permits for such a short period as one year. In some provinces, permits are issued for still shorter period—such as 3 months—because the authorities want to decide whether or not they should nationalise road transport. The permits are restricted to 3 months even in provinces where nationalisation—even if it should ultimately be decided upon—can never take place for 2 or 3 years. As stated above, the major part of a year

is exhausted by the time a permit is secured and in the absence of security of tenure for a period sufficiently long to enable them to recover their capital outlay, investment in the transport business cannot attract well-organised operators. We would therefore urge that the recent orders of Provincial Governments under which duration of permits has been restricted, should be revoked.

In conclusion, we would recommend the following measures :

(1) That the Regional and Provincial Transport Authorities be asked to issue permits for goods vehicles, both public and private, automatically and without any restriction.

(2) That vexatious delays in obtaining inter-regional and inter-provincial permits be eliminated by the issue of permits which do not require counter-signature. The Act should be amended for this purpose.

(3) That permits valid for more than 2 regions be issued by the Provincial Transport Authorities (instead of by Regional officers) where this is not already the case, and

(4) That the duration of permits be restored to the original period of three years.

Until these measures are taken we cannot hope to see road transport making its due contribution to the country 's industrial development.

III. *Restrictions on weights.*—A factor which raises the cost of road transport is the prohibition of trucks of an economical size, on account of weight limits prescribed for motor trucks in most of the provinces. Just as traffic on meter and narrow gauges of railways is costlier than that on broad gauges, so also transport by small vehicles is costlier than transport by medium sized vehicles.

To make economical road transport available to industrial undertakings it is necessary that a medium sized vehicle of a total laden weight of roughly 8 tons (which will have a nett carrying capacity of nearly 5 tons) should be able to use the roads. At present the U.P. and the East Punjab permit a laden weight of 8 tons but many other provinces have lower limits in force.

In some cases the restrictions were originally imposed on the plea that certain bridges might not be able to carry higher loads, but war-time military traffic has demonstrated that many of the so-called weak bridges can carry double the prescribed loads, and still there is no inclination on the part of the Authorities to reconsider the old limits.

Where restrictions cannot be attributed to bridges, the plea is that the road system is not strong enough. In this connection, the following paragraph taken from a publication of the Indian Roads Congress is of interest :

"It is in the prescribing of these laden weights of the vehicle and of an axle, that there is the greatest divergence between Provinces. It is undrrstood that the gross load prescribed varies from 3½ tons to 8 tons. Though there might be variations due to road conditions, it is believed that the large variations from 3½ to 8 tons could not be due to this as the capacity of some of the roads at least in the Provinces whether lower limits are prescribed are not inferior to the roads in certain other Provinces where higher limit is allowed ".

We would therefore recommend that Provincial Governments should be requested to review the existing weight limits and to permit the laden weight of 8 tons immediately except where the road foundation or bridges are demonstrably inadequate for such a load.

IV. *Distance restrictions on road transport.*—Another serious restriction with which industries using road transport are threatened in future is the Central Government's recommendation to Provincial Governments that road transport should be prohibited on all but short hauls. in order to force traffic to the railways. According to a draft Code recommended by the Government of India, road transport is to be restricted to between 50 and 100 miles, and even under the Select Committee's Report on the Indian Motor Vehicles Amending Bill such restrictions would operate on route exceeding 150 miles.

The object of this proposed restriction is to prevent any fall in the revenues of Indian Railway which are owned by the Government, and it is argued that if Railways incur any loss because of road competition, such loss will have to be borne by the general taxpayer. However true this argument might have been a dozen years ago, the position has now completely changed. Today—and more particularly when conditions return to normal—restrictions on road transport can benefit railway revenues only by inflicting a much greater loss on the revenues of the Government of India from their sources. For instance it has been shown earlier that on every ton of goods carried by motor transport the Central exchequer derives a revenue of 4½ pies after meeting the motor vehicle's contribution towards the Road Bill. A three-ton lorry operating every alternate day on a 200-mile route would thus bring in a net profit of roughly Rs. 2,400 annually to the Government of India.

It is clear that the financial considerations which constituted the justification for the Government of India's draft code were higher to examine only from the point of view of the railways and not in their relation to Government revenues as a whole or in relation to the general taxpayer. A detailed examination will show that instead of bringing in any financial gain to the Government of India or to the Indian taxpayer, road transport restriction would inevitably result in a serious and very considerable loss of revenue to the exchequer.

In the attached pamphlet prepared by the Association early in 1947 we have analysed the dangers attendant on any policy of road transport restriction. Besides showing that the loss to Central Government revenues, through prohibition of long distance road transport, would be more than double the income that might be derived by the railways from traffic diversion, we have shown that :—

1. It would be detrimental to the efficiency of the various agencies of transport because it would remove the stimulus of healthy rivalry, and

2. It would work against the interests of the public and particularly against the interest of industrial concerns by denying them the right to transport their goods by whichever mode is most speedy and convenient for their purposes.

We would, therefore, urge that the proposed restrictions should be given up and in case other means of transport require protection, such protection should be confined to traffic on route lengths exceeding a day's run by road, since, within this distance, which varies from 225 to 300 miles, road transport provides an unquestionably superior and more efficient service, the advantages of which should not, under any circumstances, be denied to India's industries. The sort of protection that can be considered for routes exceeding 300 miles—if protection is found to be justified—is a provision that road transport should not undercut equivalent railway fares, so that competition between road and rail may be strictly on the score of efficiency or suitability for individual requirements.

V. *Road/Rail co-ordination.*—We consider that road transport can be used by the railways to increase the efficiency of the railways service to a considerable extent on the lines adopted in the U.S.A. and United Kingdom. In America for instance the Southern Pacific Railway Company introduced a subsidiary road carriage service as long ago as 1929 by means of which they have accelerated their train services to a remarkable extent. The road services operate from and between a series of selected rail heads and are used to provide fast freight facilities for intermediate stations and branch lines. The substitution of road services covering parallel routes have enabled train scheduled to be cut even for passenger trains. Consignments reach the stations which act as rail heads for the road services as much as 24 hours sooner than could be achieved by the fastest freight train and branch lines are covered far more effectively by road services than they can be served by freight trains.

Almost without exception, distribution by lorry enables the railway company to effect savings in locomotive fuel, train miles, car miles and wages of freight train crews, which in the aggregate more than offset the cost of operating the road freight services. In effect the improved services provided by the lorries costs the railway less than the less efficient service which the trains alone could supply.

In the United Kingdom also a similar policy has been adopted. The following extract from " Modern Transport " of the 14th June, 1947 is of interest in this connection :

> "'The Great Western Railway zonal scheme is designed to give a one-day transit time for small consignments of merchandise by goods train between all parts of the G.W.R. system—even remote villages. Collection and delivery within the zone is undertaken by the company's road fleets operating from the main and sub-depots *instead of a large number of individual stations.* The concentration of traffic at a much smaller number of stations enables more traffic to be made up into full truck loads and despatched by fast freight service direct to the distribution centres in other zones, thus eliminating to a considerable extent intermediate transhipment and contributing to a safer and speedier transit of commodities ".

SUMMARY

We earnestly recommend that :

A. Road Development should be pushed ahead by the restoration of the recent cuts in the targets of the current 5-year plans and by provision of special non-lapsing funds, strengthening of executive machinery, etc. The whole of the Nagpur Road Plan, of which only one-fifth is covered by the present 5-year programmes, should be completed within the 15 year period 1947-1962.

B-I. A rational system of motor vehicle taxation under which the Centre would collect the taxes on a uniform and equitable scale should replace the existing provincial motor vehicle and provincial pertol sales taxes, so that dual taxation of trans-border services and excessive taxes in certain of the provinces may be remedied.

II. Artificial restrictions imposed on roads transport under the cumbrous administrative machinery of the Indian Motor Vehicle Act 1939 should be abolished.

III. Weight limits for motor lorries should be raised to 8 tons laden so as to make the operation of motor vehicles more economical than at present.

IV. The proposed distance limits for goods services by road, under the Govt. of India's draft code, should be dropped.

V. Road/Rail co-ordination and over-all transport efficiency should be furthered by concentration of railway traffic at really important railway stations, with road services operating for collection and delivery between them in replacement of smaller railway stations.

THE BOMBAY SHAREHOLDERS' ASSOCIATION, BOMBAY.

NOTE ON SECTIONS 96 (A) AND 96 (B) OF THE CANADIAN COMPANIES' ACT.

Section 96 (A) is as follows :—

96A. (1) Every director of public company shall furnish annually to the secretary, for the information of the share-holders of the company at the annual general meeting thereof, a statement setting forth in detail all shares or other securities of the company bought or sold by him, for his personal account, directly during the twelve months immediately preceding such annual meeting.

(2) No director of a public company shall speculate, for his personal account, directly or indirectly, in the shares or other securities of the company of which he is a director.

(3) Every director of a public company who neglects or fails to make a true and accurate statement of such transactions as required by sub-section one of this section, shall be guilty of an offence and liable on summary conviction to a fine not exceeding one thousand dollars or to six month's imprisonment or to both fine and imprisonment.

(4) Every director of a public company who shall speculate, for his personal account, directly or indirectly, in the shares or other securities of the company of which he is a director in contravention of sub-section two of this section, shall be guilty of an offence and liable on summary conviction to a fine not exceeding one thousand dollars or to six month's imprisonment or to both fine and imprisonment.

This section is self-explanatory and has been referred to in the note on the report of the Canadian Commission on price spreads.

Section 96 (B) Reads as follows :—

96B. (1) The directors of a public company shall not authorise the issue and allotment as fully paid shares in the capital stock of the company having a nominal or per value, except for a consideration payable in cash to the total nominal amount of the shares so issued, or for such consideration payable in property or services as the directors may determine may express resolution to be in all circumstances of the transactions the fair equivalent of cash to the total nominal amount of the shares proposed to be issued : Provided that the directors may apply to a judge for a declaratory order with relation to the consideration for the last mentioned shares in like manner and with the like effect in all respects as provided in any by sub-section nine of section twelve of this Act.

(2) Subject as hereinafter provided, every director of public company who is a party to authorise the issue and allotment as fully paid of any shares of the capital stock of the company having a nominal or per value shall be liable. jointly and severally with his co-directors, at the suit of any director, shareholder or creditor of the company, to make good to the company the amount by which the consideration actually received by the company for any shares so issued and allotted as aforesaid is found by the court, after full inquiry into the circumstances of the transaction, to be less than the fair equivalent of the cash, which the company ought to have received for such shares if they had been issued and allotted for cash if the resolution referred to in sub-section nine of section twelve of this Act has not been passed or if it is proved, as to any such first mentioned director, that such director—

(a) had knowledge that the consideration so received by the company was not the fair equivalent of the cash which the company ought to have received if the shares had been issued and allotted for cash : or

(b) failed to take reasonable steps to ascertain whether such consideration so received by the company was in fact the fair equivalent as aforesaid.

(3) No suit shall be commenced against the directors of a public company or any of them under the authority of sub-section two of this section by any creditor, director or shareholder of the company without the consent in writing of the Secretary of State ; and no such suit shall be commenced by any creditor of the company until an execution at the suit of such creditor against the company has been returned unsatisfied in whole or in part ; and no such suit shall be commenced after the expiration of three years from the date of the allotment of such shares.

(4) This section shall not apply to any mining company, that is to say, to any company whose principal objects are the exploration, development or operation of mining properties and which, if it has commenced actual operations, is carrying out such objects as its principal business. "Mining properties" includes mines, mining deposits, mining rights, metalliferous lands, mining claims or any interests therein including any option or licence in connection therewith.

This section has also been referred to in our note on the report of the Canadian Commission on price spreads. It will be seen from Section one that a safeguard has been provided against acts of promotors who exact from the company amounts out of proportion to the value of the assessed transfer, by taking advantage of their fiduciary possession.

A reference to Section 12 may be explained. Under this section power has been given to the Directors of a company to apply to a judge in Canada to determine as to whether any consideration payable for property or services in lieu of shares allotted in the capital stock of a company as a fair equivalent or not. That procedure has been adopted for the purpose of Section 96B where fully paid shares are allotted to promotors in exchange of property transferred by promoters to the company.

NOTE ON SECTION 51 OF THE ENGLISH COMPANIES ACT, 1948.

In 1943, the Board of Trade appointed a committee with Mr. Justice Cohen as Chairman, to consider and report upon the major amendments to be made in the English Companies' Act, 1929 and in particular to review the requirements prescribed in regard to the formation and affairs of companies and the safeguards afforded for investors and for the public interest. The committee consisted of 13 members comprising representative interests, such as bankers, stock exchange interests, lawyers, accountants, etc. The committee made a unanimous report which is popularly known as the Cohen Report. In paragraph 28 of the report the committee recommended that where a company stated in its prospectus that an application would be made to the stock exchange for quotation of a scrip and the application is not made or if made is not granted, then all moneys sent along with the application should be repaid.—Effect has been given to this recommendation by Section 51 of the English Companies' Act, 1948, which is as follows :—

51. *Allotment of shares and debentures to be dealt in on stock exchange.*—(1) Where a prospectus, whether issued generally or not, states that application has been or will be made for permission for the shares or debentures offered thereby to be dealt in on any stock exchange, any allotment made on an application in pursuance of the prospectus shall, whenever made, be void if the permission has not been applied for before the third day after the first issue of the prospectus or if the permission has been refused before the expiration of three weeks from the date of the closing of the subscription lists or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the applicant for permission by or on behalf of the stock exchange.

(2) Where the permission has not been applied for as aforesaid, or has been refused as aforesaid, the company shall forthwith repay without interest all money received from applicants in pursuance of the prospectus, and, if any such

money is not repaid within eight days after the company becomes liable to repay it, the directors of the company shall be jointly and severally liable to repay that money with interest at the rate of five per cent, per annum from the expiration of the eight day :

Provided that a director shall not be liable if he proves that the default in the repayment of the money was not due to any misconduct or negligence on his part.

(3) All money received as aforesaid shall be kept in a separate bank account so long as the company may become liable to repay it under the last foregoing sub-section ; and, if default is made in complying with this sub-section, the company and every officer of the company who is in default shall be liable to a fine not exceeding five hundred pounds.

(4) Any condition requiring or binding any applicant for shares or debentures to waive compliance with any requirements of this section shall be void.

(5) For the purposes of this Section, permission shall not be deemed to be refused if it is intimated that the application for it though not at present granted will be given further consideration.

(6) This section shall have effect :—

(a) in relation to any shares or debentures agreed to be taken by a person underwriting an offer thereof by a prospectus as if he had applied therefor in pursuance of the prospectus;

(b) in relation to a prospectus offering shares for sale with the following modifications, that is to say :—

(i) references to sale shall be substituted for references to allotment;

(ii) the persons by whom the offer is made, and not the company, shall be liable under subscription;

(iii) to repay money received from applicants, and references to the company's liability under that sub-section shall be construed accordingly;

(iv) for the reference in sub-section (3) to the company and every officer of the company who is in default there shall be substituted a reference to any person by or through whom the offer is made and who knowing and wilfully authorises or permits the default.

The effect of the Section is to afford to the investor a greater measure of security and as no public company worth the name can afford to allow its shares to remain unquoted the protection given by the Section is most valuable in that it tends to dissuade promoters from putting on the market unsound prospectuses. The rules of the London Stock Exchange go much beyond the ordinary law as information not required by the Company's Act has to be given to the Stock Exchange. In paragraph 24 of its report the Cohen Committee has referred to the stock exchange requirements as giving a powerful sanction against undesirable floatations.

NOTE ON THE REPORT OF THE ROYAL COMMISSION ON PRICE SPREADS APPOINTED IN CANADA.

The above Commission was appointed in Canada in 1934 in order to investigate the causes of the large spreads between the prices received by producers and the prices paid by consumers.

In the course of its investigation the commission went into various aspects of the economic situation in Canada including questions pertaining to concentration of voting power in large corporations engaged in production or distribution together with questions affecting the corporate system as a whole. Its recommendations on these subjects are contained in Chapter III of the report.

The commission recommended that a federal trade and industry commission should be appointed and that as part of the activities of this commission a Securities Board should be appointed with the following among other functions :—

(i) To review and investigate capital structure of companies.

(ii) To pass *all issues of bonds or stocks after careful consideration.*

(iii) To scrutinise advertisement and publicity materials accompanying such issues.

(iv) The Board *to have no power formally to approve but* it should have power merely to reject an issue.

(v) No company or investment house whose proposed issue of shares is under review, and not rejected should be permitted to make any reference to that effect in its literature.

The above recommendations were given effect to by the passing of the Securities Act, 1945 and the Securities Amendment Act, 1946 both of which were repealed by the Securities Act, 1947 as would be seen from the other note.

The Commission also recommended that "stock-watering" should be prevented by making it illegal for directors and promoters to issue fully paid shares unless the company has received adequate consideration for these shares. This recommendation was given effect to by the incorporation of Section 96(B) in the Canadian Companies Act as to which a separate note is submitted.

The Commission further recommended that directors should be prohibited from speculating in the shares of their company and that they should disclose annually the extent of their holdings and the changes therein from time to time. These recommendations have been incorporated by amendment of the Canadian Act as will be seen from Section 96A.

It is interesting to point out that the Commission came to the conclusion that "the whole trend of law should be towards putting the Managers and Directors in a trustee capacity with respect to all security holders". The following observations at pages 38, 39 and 43 of the report will repay persual.

Remedial Suggestions.

We now come to suggestions and recommendations for remedial action. In making these recommendations we are not so optimistic as to believe that any legislation, however, wisely conceived and effectively administered, will prevent all foolish investments or all unsound company promotion. We have, indeed, no right even if we had the desire, to take away from the citizen "his inalienable right to make a fool of himself". We do, however, feel that we have the right to attempt to prevent others making a fool of the citizen. We would emphasize also, first, that permission for a group of persons to be incorporated into a company, should be viewed as a valuable concession granted by the state. especially in relation to the convenience of a general restriction of personal liability and second, that such a concession involves corresponding obligations and responsibilities. Not the least of these obligations is to ensure that there shall be full and accurate information as to all the facts concerning every company that seems incorporation or financial support from the public after such incorporation.

We may anticipate at the outset a general objection that will be levelled at many of our suggestions, namely, that Canada is a young and developing country and as such needs and will continue to need capital; that no unnecessary obstacles or discouragements should therefore be placed in the way of the assembling of such capital from the investing public. To this objection we have one answer. All our recommendations are designed to encourage sound development through the discouragement of unsound and reckless promotions of the kind which too often characterised the financial history of this country in the

last fifteen years. Even, if, for the sake of argument, we make an admission, the validity of which we do not accept that some capital might be frightened away by laws designed to protect the investor, the amount of such capital is not likely to come within measurable distance of the millions lost to this country by unwise and reckless promotions, millions which might have been saved if some of the recommendations we are about to make had had the force of law.

The Prevention of Stock-Watering—The Securities Board.

We now come to a most important point, namely, provisions to discourage stock-watering which is, at times, almost as destructive as currency debasement. Where the capital structure is illusory it falsifies all statistics and calculations based upon it. To strike at this practice we make two recommendations : first, that it should be made illegal for directors, promoters, etc., to issue fully paid up shares unless the company receives for these shares, adequate considerations in cash, property, or services. The duty of investigating and determining the adequacy of such consideration, where such adequacy is involved in any litigation, should be placed squarely on the courts.

Although the present legal situation is not perfectly clear it would appear that in practice, Canadian Courts show a reluctance, which amounts to virtual refusal, to inquire into the adequacy of consideration if it is in some form other than cash. If, in some way, the duty of such inquiry could be definitely placed on the Courts, a most valuable step forward would have been taken.

We do not think that this would be placing any burden on the Courts which they could not adequately discourage. It is a customary practice for Courts to-day to place a value on an arm, an eye, or a reputation. There is no reason why they should be unable to place a value on a body of assets given as consideration for an issue of stock. If the decision of the Courts should be that adequate consideration was not given, then liability for the balance of the consideration unpaid should attach to the directors concerned, if it could be shown—

" (a) that such directors had knowledge of the inadequcy of the consideration, or (b) failed to take reasonable steps to ascertain the adequacy of the consideration. This would not merely discourage stock-watering but might also check that growth of interlocking and multiple directorates to which we have referred."

MEMORANDUM OF THE BOMBAY SHAREHOLDERS' ASSOCIATION ON THE NOTE SENT BY THE FISCAL COMMISSION ALONG WITH MR. D. L. MAZUMDAR'S LETTER, DATED 2ND JANUARY, 1950.

Section II—Capital Requirements

Question. *(a) Do you consider that the supply of indigenous capital will be sufficient for any scheme of rapid industrialisation of the country? If so,*

(i) *what steps would you advocate to tap the sources of indigenous capital?*

(ii) *what is the rate at which investment of indigenous capital will be possible say, in the next ten years?*

Answer.—The present outlook in the investment market has become so dismal that it may not be possible to have adequate supply of indigenous capital for any scheme of industrialisation of the country until the causes that have led to this state of affairs are substantially removed.

It would be useful to state a few facts in order that the gravity of the problems and the remedies suggested may be properly appreciated.

The damage done to the country's economy by the taxation proposals contained in the budget for 1946-47 and the subsequent partition of the country is too well-known to need further elaboration. It was expected that Government would take timely and effective steps to relieve the situation by taking a

realistic view. This expectation was, however, belied as Government adopted certain policies which had a contrary effect. Taxation continued to be kept at a high level. Government decided to nationalise certain industries and dividend limitation legislation was undertaken in order to curtail the purchasing power of shareholders although the bulk of the shareholders consists of middle classes who have found it difficult to make two ends meet in face of rising prices. On the labour front, awards of Industrial Courts and Arbitrators created serious misgivings in the minds of investors. An Award was given whereby reserves of a prominent electricity company were ordered to be shared as between the shareholders and labour. There were large increases in wages and dearness allowances and substantial amounts were ordered to be paid by way of bonus irrespective of considerations for the capacity of the Industry or the need for conserving resources. Absenteeism increased and go-slow tactics became the order of the day. Suggestions for Rationalisation of labour met with opposition and productivity suffered in spite of mounting labour costs. Compulsory profit sharing schemes were suggested in spite of dwindling production and profits. The cost of living continued to rise with consequent burdens on the industry in the form of increased dearness allowances. Provincial governments imposed Sales Taxes which led to further increases in the cost of living. The grow more food campaign did not meet with anticipated success and the administration of control both at the hands of the Central and Provincial Governments left much to be desired. There were several Bank failures in various parts of the country which affected credit. Abuses of Company management became more frequent. Many new companies which were allowed to be floated without due regard to sound principles and in which investors had sunk crores of capital were found to be in a moribund condition or were faced with a number of difficulties in going to production. The capital thus invested became non-productive unrealisable. In short, a sort of economic malaise has overtaken the country during the last three years shaking the confidence of the investors and involving them into phenomenal losses and depreciation of capital. This has natural led to unparalleled deterioration in the investment market making capital extremely shy both for Government Securities as well as industrial projects. Under the combined operation of high cost of living and high level of taxation, savings have dwindled and the investment market has become practically dry.

The havoc thus caused would be appreciated on a reference to the indices of security prices published by the Reserve Bank of India in its Bulletin for October 1949 with the base year 1938 = 100. The all India Index Numbers of fixed and variable dividend industrial securities which stood at 146.75 and 287.87 on 2nd August 1946, have respectively come down to 98.89 and 114.45 on 29th October, 1949. That fixed dividend securities have gone below the 1938 base year is particularly significant in that these securities are generally held by certain investing classes who are desirous of earning a fixed income from their savings. It will also be seen that the index number of variable securities has come very near the base year figure. A study of the Sub-Group Index Numbers in respect of these securities as contained in Table IV at page 702 of the Bulletin reveals the interesting fact that in a number of industries, *e.g.*, electricity, shipping, railway, jute, mining and oil, the index figure has gone considerably below the base year 1938. It has also to be remembered, as stated at page 659 of the Bulletin, that the indices have been prepared on the basis of quotation of 398 scrips quoted on the Bombay, Calcutta, and Madras Stock Exchanges. Consequently. if the large number of unquoted securities which would include a number of new companies whose shares have become unsaleable are taken into account, the position would really be much worse.

Among the reasons for the aforesaid state of affairs we have included floatation of new concerns on unsound lines and abuses of management.

With regard to floatation of new concerns, a study of the prospectuses of numerous concerns which are in our possession has revealed a most disquieting state of affairs with regard to methods and practices followed by large sections of promoters. Companies have been floated without sufficient capital with the result that they have become moribund or have been confronted with serious financial difficulties. In this connection, attention is invited to part IV of our printed publication already supplied to the Commission and the specific instances

therein which are illustrative and not exhaustive. In not a few cases, Deferred shares of low denomination have been issued and large blocks of these shares have been allotted to the promoters themselves with the sole object and enabling them to control the undertaking with an insignificant stake. In this connection, attention is invited to part V of the printed publication and the instances given therein which are also illustrative and not exhaustive. There have been cases where material information has been withheld and in some cases underwriting arrangements have not been carried out.

There have also been many cases where vendors have transferred property to new companies at inflated prices and have also obtained large amounts as goodwill. This is borne out by the 1st Annual Report of the Industrial Finance Corporation where the Directors observed; "In many cases, the paid-up capital largely represented shares issued in payments of properties and assets transferred by the promoters to the companies at inflated values".

Several concerns have been floated without proper consideration being given to such questions as availability of machinery and raw materials, technical personnel, locations, etc., etc. Indiscriminate floatation of air Companies, Cotton Textile Mills and Chemical concerns are instances in point.

In paragraph 28 of his address delivered on 20th March 1948 before the Goghale Institute of Politics and Economics, Sir Chintaman Deshmukh, referring to the Defence of India Rule 94-A in respect of control of capital issued, observed :

"The chief object of the Rule which was promulgated in May, 1943 was to prevent the growth of mushroom companies which stood little chance of survival in the post-war period and other undesirable practices such as over-capitalisation of concerns on the basis of abnormal war time profit to the detriment of the investing public. Another important consideration was the diversion of the available capital from unsound and speculative enterprises to investments in Defence loans so as to mobilise the financial resources of the country for the prosecution of the war on the one hand, and to combat inflation on the other".

We attach herewith a statement containing particulars of capital sanctions from the beginning, *i.e.*, from May 1943 to 31st December, 1948. The statement brings out the following facts :—

1. Total number of companies sanctioned (Col. 2)			5,653
2. Amount sanctioned (Col. 3)	(in lakhs)	Rs.	88,888,78
3. Number of companies that have reported paid-up capital (Col. 4)			1,965
4. Amount sanctioned for companies that have reported paid-up capital (Col. 5)	(in lakhs)	Rs.	48,916·25
5. Subscribed capital (Col. 6)	Do.	,,	23,072·29
6. Paid-up capital (Col. 7)	Do.	,,	19,753·86

Thus as against 489 crores of capital sanctioned for 1965 out of 5,653 companies, the subscribed capital amounts to 230 crores and the paid up capital to 197 crores. The low figure of subscribed capital as compared to that of the sanctioned capital unmistakably suggests that several companies were floated on a basis which was either unsound or not *bona fide*. This is a serious matter particularly at the present juncture when all the available resources of the nation require to be mobilised for productive enterprises.

It will be seen that the Capital Issues Control has failed to protect the interests of investing public. In fact, the control has been exercised in a negative manner in that in giving consent it is expressly provided that the "Government of India do not take any responsibility for the financial soundness of any schemes or for correctness of any of the statements made or opinions expressed with regard to them".

It is therefore not surprising that capital formation has proceeded on undesirable lines involving waste of public capital. The concerns floated under the patronage of Provincial Government have also suffered from bad financial organisation as the history of some of the C.P. projects would clearly show. A more recent instance in point is that of a cement company floated under the patronage of the Bombay Government where minimum subscription has been fixed at the hopelessly low figure of Rs. 40 lakhs in spite of the fact that expenses for plant machinery and buildings, etc., according to the Directors' own showing, would cost the company Rs. 1 crore. When concerns are floated under Government patronage, the public are apt to presume that their organisation is sound. Their disappointment is therefore all the greater when it turns out that such concerns are floated without due regard to sound principles.

Some of the concerns have collected capital from the public but have not commenced business activities for one reason or another. Public investment in such concerns has therefore become frozen, at any rate, for the time being. Such concerns must be wound up so that the tied up capital may be immobilised for the benefit of the investment market.

It is clear that industrialisation of the country on haphazard lines can only end in disaster. No Fiscal Policy will succeed unless industrialisation which is one of its chief aims, is based on planned economy and not on opportunism. Industry should not be made the promoters' paradise. Another evil which has arisen directly out of new floatations refers to unrestricted dealings by all and sundry in the shares of these companies—and that too at heavy premiums—long before they are listed for official quotations on the Stock Exchange. This practice which is mainly beneficial to the promoters and their friends is highly detrimental to the interests of the public and requires to be checked.

With regard to abuses of management, these have been fully dealt with in our printed publication. A summary of these abuses has been given at page 212 of the book. It is therefore not necessary to go into these abuses in this memorandum.

On the facts stated above, we have to make the following suggestions :—

1. Government should revise its taxation, financial and economic policies in such a way as would reduce the existing level of taxation, increase the margin of saving and create conditions calculated to promote confidence in the mind of the investor.

This point has already been dealt with.

2. The Indian Companies' Act should be effectively amended.

With regard to this suggestion, certain tentative proposals for amendment of the Indian Companies' Act have been published. We would, however, emphasise the desirability of expediting amendment of the Act. Among the published proposals, there is a proposal for the establishment of a separate organisation for administration and enforcement of the provisions of the Act. We attach the greatest importance to this proposal. The suggestion for creating such an organisation was made by us when the Act was amended in 1936 but the same was unfortunately turned down with results which experience has shown have proved disastrous.

3. In order that new capital formations may proceed on planned and orderly lines with due regard to sound principles and the interests of the investor arrangements should be made for creation of some standing organisation under the planning commission whose appointment we have favoured in reply to Section VII of the note. The function of this organisation should be to scrutinise the prospectuses of new floatations from the point of view of their soundness and the adequacy of the information disclosed therein before they are published. This organisation should in collaboration with the Stock Exchange authorities frame a set of rules to be observed by all the Stock Exchange before granting official quotation for any scrip. Dealings in any scrip in which official quotations are not granted should be prohibited and made a criminal offence.

We are of opinion that the above suggestion would go a long way in dissuading promoters from putting on the market undesirable or spurious propositions.

With regard to rules to be observed before granting official quotations, constitutions of some stock exchanges more especially the Bombay Stock Exchange contain some useful rules which have to be complied with by companies who seek official quotations. Such rules, however, are not adequate nor are they uniform on all the stock exchanges. In fact, certain stock exchanges have no listing rules. Our suggestion is calculated to impart effectiveness and uniformity in this matter.

With regard to that part of the suggestions which seeks to impose restrictions on quotations, the same is intended to prevent dealings in undesirable issues. While the Stock Exchange authorities can exercise a certain amount of discipline on their own members, they are powerless with regard to non-members who are, under the existing law, also entitled to deal in such issues. This is a serious lacunae of which full advantage has been taken by the promoters, and their friends.

In our opinion the suggestion made by us requires careful consideration. To enable the Commission to arrive at a proper solution of the issue involved, we would invite attention to certain precedents which go to show that the principle underlying the suggestion has already been accepted in countries like Great Britain and U.S.A. and Canada. Under Section 51 of the English Companies' Act, provisions have been made for repayment of the application amount to the subscriber, if the prospectus states that an application would be made to a Stock Exchange for obtaining permission for quotation and the permission is not granted. The object of this Section which has been enacted as per recommendation of a representative committee called the Cohen Committee (*vide* para. 28 of the committee's report) is to afford the investor a greater measure of security undesirable or spurious floatations.

In the U. S. A., transactions in securities conducted upon securities exchanges and over the counter markets are affected with a national public interest and accordingly comprehensive provisions have been made by the Securities Exchange Act of 1934, with regard to regulation and control of such transactions.

Under the Securities Act, 1947 of the Statutes of Ontario, 1947, Chapter 98, no person is allowed to trade in securities unless he is duly registered with the security commission set up under the Act, if the prospectus required to be filed with the Commission is not accepted for any of the reasons mentioned in section 49 of the Act. Unler this section, the Commission is invested with powers to reject the Prospectus if it fails to disclose material information or contains any misleading or deceptive statement or forecast or if an unconsionable consideration has been paid or given or is intended to be paid or given for promotional purposes or for the acquisition of property of the proceeds from the sale of the security are insufficient to accomplish the objects indicated in the prospectus.

Attention may also be invited to Section 96(B) of the Canadian Companies Act, under which Directors of a public company are debarred from allotting fully-paid shares except for an adequate consideration and an express provision is made that the Directors may apply to a judge for a declaratory order with regard to adequacy or otherwise of the consideration paid in the form of shares. It is interesting to recall that this Section was enacted on the recommendation of the Royal Commission on Price Spreads appointed in Canada which, on an examination of prospectuses of certain companies, found that there was considerable "stock watering" in the shares allotted to vendors in exchange for transfer of property.

Question.—(*a*) * * * *

(b) *If you advocate foreign borrowing would you prefer Government to Government borrowing or private investment?*

(c) *What other questions would you lay down for the borrowing of foreign capital* ·

Answer.—(a) In our opinion, in the present circumstances of the country it is necessary to encourage the inflow of foreign capital whether on Government to Government basis or otherwise provided that investments in new units of the same industry should not be allowed with the aid of foreign capital unless production of the existing units is not adequate to meet the country's demands

With regard to enterprises floated with the help of foreign capital or technique the same considerations that we have urged with regard to the protection of the investor in relation to indigenous industries should also apply in order that such enterprises may also proceed on planned and orderly lines. In support of this view we attach herewith a note explaining certain disquieting features concerning the organisation of a recent undertaking floated in collaboration with foreign interests for the manufacture of cycles, spare parts, accessories, etc.

SECTION VII—GOVERNMENT MACHINERY FOR DEVELOPMENT PURPOSES.

Question (a) * * * *

(b) *In particular what are your views as to the type of control or regulation that Government should exercise over industries generally in order to accelerate their co-ordinated development and in particular over protected and assisted industries in order to keep a close and continued watch on their progress.*

(c) *It has been suggested that the integrated development of our industry and trade call for the establishment of a comprehensive organisation partaking of the nature of a planning commission which can take an overall view of the policy issues in the industrial and commercial field and can assess the relative priorities as between them? If you agree with this view* * * * *

Answer.—For the reasons already stated, we are in favour of establishment of an independent planning commission for carrying out the objects mentioned in paragraph (c) of the question.

With regard to Government's control and regulation over protected and assisted industries, we find that at present there is no legislation to prevent protected and assisted industries from doing things which may add to the cost of production. For instance, in several industries which have received protection, the commission of Managing Agents is being paid in a form or at a scale different from that fixed by the Tariff Board in calculating the fair selling price. Although the Tariff Board has fixed the Managing Agent's remuneration on the basis of profits, in several industries such as cotton textile, sugar, etc., Managing Agents of several companies continue to charge commission on the sale or production basis. Again, where the Tariff Board has fixed 7½ per cent. commission on nett profits after deducting depreciation Managing Agents of several cotton mills have continued to charge commission at a higher scale and that also without deducting depreciation. The result is that the amount which should go to augment the profit of the industry goes into the pocket of the Managing Agents and to this extent the scheme of protection or assistance is neutralised for the benefit of one particular section. We submit that this should be prevented by means of suitable legislation.

Question.—Treatment and obligation of protected and assisted industries.

(Being question 66 in the main Questionnaire)

Answer.—We desire to say a few words with regard to treatment and obligations of protected and assisted industries. We are of opinion that protected and assisted industries should perform the following obligations :—

(1) They should provide efficient management;

(2) They should develop research facilities;

(3) They should provide training facilities;

(4) They should make maximum use of indigenous materials in order that secondary industries may be supported and their development may become integrated.

We understand that several industries more especially those which are managed by Managing Agents who have business interests in foreign companies prefer to buy foreign stores and materials although indigenous articles of good quality are available. This practice should be stopped.

We also suggest that where an Industry assisted by foreigners is protected, it should be obligatory for that industry to undertake the maximum number of processes in the shortest possible time.

Progressive report regarding subscribed and paid-up Capital of Companies given sanction under Capital Issues Scheme as on 15 *July*, 1949.

(This statement supersedes all previous statements)

(Amounts in Lakhs)

Years	Total No. of companies sanctioned	Amount sanctioned for (2)	No. of Cos. that have reported paid-up capital etc.	Amount sanctioned for (4)	Subscribed Capital	Paid-up Capital
1	2	3	4	5	6	7
17th May 1943 to 31-12-45 (Industrial)	1977	2,02,00·43	577 (405)	89,87·52 (84,99·37)	48,76·21 (44,43·50)	41,43·50 (38,11·29)
(Non-Industrial)	2145	1,12,47·89	436 (318)	59,62·20 (57,93·05)	39,35·47 (38,12·65)	32,23·21 (31,24·38)
TOTAL	4102	3,14,48·32	1013	1,49,49·72	88,11·68	73,66·81
1946 (Industrial)	388	1,40,15·51	260	86,49·06	40,79·31	3,154·97
(Non-Industrial)	294	1,00,23·93	183	57,27·10	24,56·57	2,170·87
TOTAL	682	2,40,39·44	443	1,43,76·16	65,34·88	53,25·84
1947 (Industrial)	314	1,11,12·64	258	85,88·00	43,34·00	39,40·00
(Non-Industrial)	190	1,00,18·12	156	67,96·98	16,21·34	13,51·66
TOTAL	504	2,11,30·76	414	1,53,84·98	59,55·34	52.91·66
1948 (Industrial)	247	69,51·37	76	22,61·10	12,90·37	12,87·50
(Non-Industrial)	118	53,18·89	19	19,44·29	4,86·93	4,82·05
TOTAL	365	1,22,70·26	95	42,05·39	17,77·30	17,69·55

NOTE.—The figures in brackets represent Capital issues sanctions for Rs. 5 lakhs and above including Banks and Insurance Companies which are not covered by the exemption order.

A note on the prospectus of Sen-Raleigh Industries of India, Limited

This Company was incorporated on 30th June, 1949, for the purpose of manufacturing cycles, cycle parts and accessories in collaboration with Raleigh Industries Ltd. of Nottingham (England). The authorised capital of the Company is Rs. 1 crore divided into 30,000 5 per cent. Tax-free preference shares of Rs. 100 each and 7,00,000 ordinary shares of Rs. 10 each. The issued capital is Rs. 50,00,000 divided into 15,000 preference shares and 3,50,000 ordinary shares.

7,500 Preference shares and 1,73,400 ordinary shares are privately subscribed and are to be allotted on applications received from Raleigh and from Directors and business associates. The balance, *viz.*, 7,500 preference shares and 1,76,000 ordinary shares have been offered to the public. The minimum number of directors is limited to 7. All the seats have been filled up by the appointment of seven directors as first directors as follows :—

(1) Sri Sudhir Kumar Sen, Partner, Messrs. Sen & Pandit who are the Distributors for the Company.

(2) Mr. George Hamilton Bracher Wilson, Managing Director, Raleigh Industries Limited.

(3) Mr. Leonard Cyril Clarkson—Director, Raleigh Industries Ltd.

(4) Mr. Eric Ensor Baker, Director—Raleigh Cycle Company Limited.

(5) Sri Sachhindra Nath Chowdhary—Barrister-at-law, Calcutta.

(6) Sri Sachhindra Prasad Saha, Rash Behari Avenue, Calcutta.

(7) Sri Abhijit Sen, Partner of Messrs. Sen & Pandit, Distributors of the Company.

Out of 7 directors, five directors (Nos. 1, 2, 3, 4 and 7) are interested directors. The other two are probably the friends of the promoters.

An agreement, dated 3rd November, 1948, has been made between Raleigh and Sudhir Kumar Sen on behalf of the Company providing for (a) the establishment of a factory and the manufacture of cycles in India by the Company; (b) the furnishing of advice and services by Raleigh as consultants and advisers to the Company and (c) the appointment of the Company as sole concessionaries with the rights of sale and distribution of the products supplies by Raleigh in the Indian Union and other places. This agreement is to remain in force until 3rd November 1968 and thereafter until terminated by 12 months notice.

Another agreement, dated 7th September, 1949, has been made whereby the firm of Sen & Pandit and their successors in business are appointed sole distributors of the Company for all Raleigh products and also all products manufactured by or dealt in by the Company on certain terms as to remuneration. This agreement is co-terminous with the first agreement.

Raleigh so long as they are the consultants and technical advisers are entitled to appoint one *ex-officio* director, the first such director being Mr. G. H. B. Wilson and the firm of Messrs. Sen and Pandit are entitled to appoint one *ex-officio* director so long as the firm or its partner holds shares in the Company, the first such *ex-officio* director being Mr. Sudhir Kumar Sen.

The Articles of Association provides that the Directors may appoint one or more of their body to be Managing Director or Managing Directors but no appointment made by the Directors is to be revoked by the Co. except by special resolution. It is not intended to appoint Managing Directors until the Company's factory commences operations. Thereafter it is intended to appoint Mr. S. K. Sen and Mr. Abhijit Sen as first Managing Directors. It is provided that thereafter the directors should make such appointments of subsequent Managing Directors as would ensure that throughout the term of the agreement with Raleighs Mr. Sudhir Kumar Sen or if he ceases to be a Director then the *ex-officio* Director for the time being appointed by Sen & Pandit shall hold office of Managing Director alone or jointly with Mr. Abhijit Sen.

Article 71 which regulates appointment of *ex-officio* director by Sen and Pandit contains the following interesting clause;

"In this Article 'the firm of Messrs. Sen & Pandit' means and includes the persons now and from time to time and for the time being carrying on the business in partnership as merchants and agents under the style or firm of Sen & Pandit and any person from time to time or for the time being carrying on the said business alone and any person who are any firm which shall from time to time and at any time succeed to the said business and any company into which the said business shall at any time be converted or to which the said business shall be transferred".

Thus successors of Sen and Pandit have a right to appoint an *ex-officio* director. As none but the *Ex-officio* director can be appointed as subsequent Managing Director, it is clear that the future executive management is vested, by a chain of succession, in the firm of Messrs. Sen & Pandit irrespective of the qualifications, status or ability of the person concerned. As the agreement with the Raleighs continues up to 3rd November 1968 and thereafter until determined by 12 months' notice the above arrangement about appointment of future Managing Directors is more or less of a permanent nature. This is a most disquieting feature of the Company's organisation and is not conducive to efficiency. It has to be remembered that the cycle industry is a protected industry.

Under article 87 (1) of the Company's Articles of Association it is provided that an elected director should vacate office if called upon by other co-directors to do so. Thus, an attempt has been made to oust an elected director and keep the directorate a close domestic preserve. This is another disquieting feature.

The Company has not sent to us the agreements referred to in the prospectus but the above aspects as brought out from the prospectus and the Articles of Association sufficiently illustrate the need for scrutiny of prospectuses at the hands of the planning commission as suggested by us.

HIND MAZDOOR SABHA, BOMBAY

SECTION I.—AGRICULTURE AND POPULATION.

(a) *A shift of population from agriculture to secondary and tertiary industry*

No elaborate statistics are required to prove that till very recently there has been a continuous increase in the pressure on land in our country. The steady increase in population, the decay of indigenous industries, lack of other avenues of employment, the rise in land values are some of the causes for this increased pressure. This, coupled with the fact that till recently the debt burden on the agricultural classes was continuously increasing, led to the emergence of a class of landless labourers. These labourers are unemployed over a considerable part of the year. Naturally, *per capita* income from agriculture is very low and this is a major symptom of India's general poverty. Recently a slight shift from rural to urban areas is visible and the income from primary sector is also said to be rising. But even if this be true there is yet a very heavy pressure on land and no rise in the average *per capita* income in the country and the standard of living of the common man can be expected till there is a substantial shift of the population now dependent on agriculture to secondary and tertiary industries.

2. While admitting this it must be remembered that this does not mean a shift from rural to urban areas. Already our civic administrations in urban areas are on breaking point, housing problem in these areas has assumed alarming proportions and the transport facilities in the country are far from being adequate. Any further load on these services, therefore, would mean a disaster. The secondary and tertiary industries, therefore, have to be taken to the rural areas and not the population to the areas where they are mostly located at present.

3. Another important fact to be remembered in this connection is that this shift should be permanent in the sense that rural industries should not be a spare time occupation. Farmers in their attempts to become artisans or industrial workers will be efficient in neither. Both efficient farming and cottage and small scale industries require a degree of scientific and technical skill which calls for specialisation. Hence a part of the population now dependent on agriculture should be permanently shifted to secondary and tertiary industries.

(b) *Mechanisation of Agriculture.*

4. The next question is, how this shift is to be achieved. The present technique and organisation of our agriculture is such that during the busy season it requires almost the entire population now dependent on agriculture. In order to make the desired shift possible, therefore, the efficiency of our agricultural production has to be increased. One way of doing it is to mechanise agriculture. Unfortunately there is an acute difference of opinion on the question of the desirability of a large-scale mechanisation of agriculture. Even apart from this consideration such a mechanisation can be justified only if it increases the efficiency of agriculture measured both in terms of people employed directly or indirectly in agriculture and the capital sunk in this sector of our economy.

5. It has been argued that mechanisation may mean fewer men per operation but not necessarily per acre, as it creates several new classes of employment like making of the machines, their management and repairs, distribution of the shares, the fuel and the lubricants etc. Such a creation of new classes of employment would certainly mean a shift in occupation. If the mechanisation does raise the yield per acre it may also mean a greater **per capita** income, but whether it will mean a greater yield on the unit of capital sunk is doubtful. In the recent monumental study brought out by the Stanford University of "The Socialised Agriculture of the U.S.S.R." made by Prof. Naum Jasny it is contended that the results achieved are far from commensurate with the capital invested.

6. Even if the mechanisation is desirable it is not practicable in the near future. Such a mechanisation will require a large amount of capital which is more urgently required in other sectors of our economy. In the absence of any large-scale machine tool industry in the country it would also require a substantial amount in foreign exchange which we can ill afford at the present juncture. Again, the new channels of occupation opened as a result of mechanisation would require the amount of technical skill and organising ability singularly lacking in our agricultural population today. A large-scale mechanisation would therefore create functional unemployment seriously unbalancing our rural economy. Any large-scale mechanisation of our agriculture, therefore, even if it is found to be desirable is not practicable at present.

(c) *Rationalisation of Agriculture.*

7. This leaves us the alternative of the rationalisation of agriculture without mechanisation on any large-scale. If this rationalisation is brought about in a successful manner a part of the population thrown out of employment as a result of such a rationalisation can be readily absorbed. What is required is a complete reorganisation of the social and economic framework of our rural economy, consolidation of fragmented and scattered holdings through the creation of agricultural co-operatives, the production, purchase and supply of improved seed, the manufacture of composts and other aids to better cultivation, minor irrigation works and roads, better cattle, seeds banks—all these are necessary to rationalise our agriculture. And each one of these activities would require a considerable personnel.

8. For lack of resources, capital and human, it is not possible to attempt rationalisation of agriculture at one jump. The best plan would be to select a taluka or a tehsil in every district for development. The most alert elements of the whole district should be brought together in the selected taluka for carrying out the improvements : they will be three-pronged, economic, social and administrative. These talukas can become the seed bed for similar developments in other talukas. The mobilisation of labour power, through co-operative efforts, can not only help to construct irrigation and other facilities necessary for improving yield per acre but for bringing under plough lands that with less expenditure of labour and resources would not prove productive. In this connection the idea of a Land Army, recruited and maintained by the Government as an instrument of social change a lever of economic transformation, appears full of rich possibilities. What, however, needs to be understood is that rationalisation of agriculture is not a mere technical problem, it is essentially a social problem. The technical aspects such as those of better seed and more water, have to be approached in the frame-work of social awareness and change. The failure of a pure technical approach in the past should help to drive this lesson home.

9. These reforms notwithstanding, alternative employment will have to be found for a considerable number of people. This can only be done by the development of cottage and small scale industries. Even this will require the import of machinery and training. The Japanese organisation of these industries can be studied with advantage.

10. The cottage and small scale industries which can usefully be encouraged fall under three categories :—

(a) those engaged in the production of artistic goods,

(b) those producing articles for mass consumption and

(c) those acting as subsidiaries or auxiliaries for factory industries.

11. Every effort should be made to reorganise our cottage and small scale industries in each one of these three categories :

The measures necessary for this purpose are :

(a) provision for cheap power,

(b) provision for technical training and

(c) provision of finance and marketing facilities.

12. The provincial Governments should undertake the responsibility of providing the electric power for the use of small and cottage industries at special favourable rates.

13. In each district a technical training centre should be established. The centre should draw its trainees, as far as possible, from the district concerned. The scheme of education given should be intimately related to the needs of the particular arts and crafts flourishing in that district.

14. Better finance and improved facilities should be provided through co-operative institutions. These institutions should be federated at the provincial level into a provincial organisation with the following functions :

(a) exploring the possibilities of improving the technique of production,

(b) securing financial assistance and

(c) the study of the markets for the goods produced by the small scale and cottage industries.

15. It is necessary to have planned progress and fast progress. People can be induced to make sacrifices if they feel that the sacrifices are leading to desirable results and also know generally the period over which such sacrifices would be needed.

16. Reorganisation of our rural life and economy demands the revival of institutions of direct democracy. Representative democracy, as understood in the Western World, lack the dynamism needed for the big transformation. Direct shouldering and sharing of responsibility will quicken the pace and pulse of social change.

Section II—Capital Requirements

(a) *Indigenous Capital.*

17. The question of capital formation is the key problem of our economy today. Since the publication of the Bombay Plan till now many estimates have been made of the available indigenous capital. According to the Bombay Plan apart from the Sterling Balances and Foreign Borrowings Rs. 8300 crores were likely to be available in the course of 15 years : Rs. 900 crores from Hoarded Wealth and Balance of Trade and Rs. 7,400 crores from savings and "created money". According to the "Gandhian Plan" prepared by Sri Agarwal expected the total expenditure during the period of 10 years to be Rs. 3,500 crores non-recurring and Rs. 200 crores recurring met from indigenous sources. The Zero Programme placed the available capital at Rs. 6,000 crores in the course of 10 years. Recently the *Eastern Economist* has come out with a Peoples Plan covering five years. According to their estimate the total volume of internal savings available to finance the plan would be roughly Rs. 1,000 crores. Thus from nearly Rs. 550 crores of average annual savings of the Bombay Plan we have come down to Rs. 200 crores of average annual savings. According to the same paper our National Income in 1947-48 was Rs. 3,942.1 crores in Indian Provinces alone. For any adequate scheme of rapid industrialisation of our country we must save at least 10 to 15 per cent. of our National Income. In other words we must save in the order of Rs. 400 to Rs. 600 crores per year.

18. It is not easy to reach this target. Our capacity to save depends upon our capacity to produce and our capacity to reduce consumption. Our productive capacity is very low. Our agriculture is in a hopeless state of disorganisation. There is hardly any saving in our Primary Sector. Our industrial development is lopsided. Out of 5,013 major industrial establishments in the country with a total investment of Rs. 458.5 crores only 325 factories belong to heavy industry with capital investment of Rs. 60 crores. A significant portion of the productive capacity of our industry remains unused. Our industries are highly trustified with the result that in eleven major groups of industry capital invested increased by only Rs. 9 crores or just three per cent. between 1938-39 and 1946. During the war years production was stepped up and our capital resources were recknessly used. This has affected adversely the productivity of our worker which has fallen from 100 in 1939 to 78 in 1947-48.

19. The result of all this is that our rate of industrial development is about Rs. 10 to 11 crores per year. Our institutional savings and savings of the small investors are not more than Rs. 20 to 30 crores a year. It is impossible to finance any adequate plan of rapid industrialisation of our country on the basis of these meagre savings. We have to go to the root of the failure of capital formation and apply drastic remedies to correct the situation.

20. The failure of capital formation is due to (1) lack of savings (2) insufficient conversion even of available savings into capital and (3) low production which does not leave sufficient margin for savings.

21. To promote the growth of savings it is necessary to impose an all-round restriction on consumption. A scheme of consumption restriction will succeed only to the extent it imposes proportionately greater burden on the higher incomes than what are put on the lower incomes. Under a plan of austerity, "conspicuous consumption" must become a crime, a form of social cancer.

22. To convert savings into capital tax concessions and remissions may be given to undistributed profits ploughed back into the industry. Production should be increased through harder work and better co-ordinated production. It will be necessary to carry out rationalisation of organised and unorganised industries and to insist on harder work on the part of both workers and managements.

23. Before such a scheme of rationalisation and hard work can be made acceptable to the workers certain conditions will have to be fulfilled. These conditions are :

(1) the workers should be convinced that they are making the sacrifice for the general good of the community and not for the benefit of the richer section thereof.

(2) they should be assured a real partnership in the organisation and administration of the industry in which they are working.

(3) the capitalists should be stripped of their superfluities before the workers are called upon to forego necessities.

(4) conditions of work should be so imposed that harder work becomes possible without injury to the health of the workers.

24. Physical and psychological bottlenecks hampering the transformation of savings into capital, will have to be removed. The physical obstacles to be removed are inadequacy of transport facilities, lack of raw material and capital goods and the lack of trained personnel.

25. The depressing effects of uncertainties can be removed by an assurance, from the Government and Monetary Authorities of maintenance of stable prices and capital values. The Indian investor must sense his profit expectations fostered during the years of shortage and inflation.

26. To carry out all these tasks it is necessary to establish a National Planning Committee whose function it will be to suggest ways and means of attaining the targets and to distribute the savings, according to a carefully prepared plan of national development.

(b) *Foreign Loans.*

27. Looking to the requirements of our economy there is no doubt that a substantial loan of foreign capital will greatly lighten the burden of industrialisation on our people who are already overburdened. Foreign capital should, therefore, be welcomed provided no strings are attached and further that all such aid is brought in by the Government. Private import of capital will lead to the creation of international cartels.

(c) *Conditions attaching the same.*

28. As the borrowing will be Government to Government no further conditions need be laid down except that the rate of interest should be reasonable in view of the assured guarantee of repayment.

Section III—Labour.

(a) *The relative productivity of Indian Labour.*

29. Production of an industry or a unit depend upon many factors besides labour. It is therefore very unfair to compare the productivity of labour in India with that of industrially advanced countries. As the Report on the Committee on Profit Sharing puts it "The Productivity of Labour is dependent, among other things, on the nature of the equipment and the efficiency of organisation and supervision. Then again, the measurement of total production in terms of a common unit is a very difficult task. Even the final products of an industry or undertaking are not always uniform and easily measurable". Further as a leading economic journal in Bombay puts it, "More workers are employed in India per unit of machinery because labour is cheap and machine dear, and less output per worker is often due to the use of poor quality material, worn out machinery, bad control and defective industrial organisation and management. Therefore we cannot subscribe to the pseudomathematic representations of relative efficiency or inefficiency of labour in India". In the absence of standardisation of the production equipment, raw materials and working conditions a comparison of productivity is bound to be arbitrary and misleading.

(b) *The cause of low productivity.*

30. All that we can say, therefore, is that there is much scope for improvement in the productivity of our industry.

31. Our industrial capital equipments were overworked during the war and the machinery is worn out. There is no uniform scientific practice in the use of raw materials. Much can be done to improve the labour-management relationship by creating an atmosphere in which a worker can feel a creative joy in his work. A scheme like that of the Training within an Industry of Britain can be devised to improve the technical skill of the worker.

(c) *Decrease of the productivity of labour in recent years.*

32. It is difficult to compare the productivity at different periods of time. To quote the Report of the Committee on Profit Sharing again, "the basic conditions in any one year may be quite different from the conditions on which the norm has been determined. The production equipment might have increased or diminished or improved or deteriorated in the meantime. There may be unvoluntary interruption for which no one is responsible. To compare actual production in any given year with the norm would therefore, be extremely unscientific and unsatisfactory." If a rule of thumb is employed and the productivity is measured by the product divided by the labour force employed productivity has gone down in recent years. The causes may be the worn out condition of our machinery, and a pervading sense of grievance amongst the workers due to a continuous fall in real wages. This does not enthuse them to contribute their best in production. A general deterioration in our business standards as evidenced by reckless black marketing and profiteering is also responsible for this.

Section IV—Industrialisation.

(a) *The Pattern of Industrialisation.*

33. The problem of determining the pattern of industrialisation is really the problem of answering two distinct questions : (a) in which sector of our economy we would like to enforce savings and (b) in which sector of our economy we would like to invest these savings. In the *laissez-faire* system these questions are determined by the propensity to consume, by prospective yield on investments and by the liquidity preference. In a planned economy the questions have to be answered in terms of the requirements of the economy as conceived by some planning authority.

34. Many answers have been given by the different plans to the two questions formulated above according to their assessments of the requirements of the situation. As for the first question as to from what sector of the economy the savings should come, all the anwers ultimately boil down to a

temporary cut in consumption. People's Plan for economic development of India, prepared by the reconstruction committee of the Indian Federation of Labour, for instance, in paragraph 116 of the Report says : "The growth of industries as well as the provision of the services such as those of health, education and housing will depend upon the extent to which a surplus is created in the economy, and the creation of that surplus will naturally be the task of the principal industry in the country, *viz.*, agriculture", and in paragraph 117 they say : "in the beginning a considerable portion of labour would be diverted to the purpose of reclaiming the cultivable land as well as for the irrigation schemes." These items in the initial stages would mean work without immediate results and to that extent would mean austerity. Similarly the Bombay Plan depends for their finance to the tune of Rs. 8,000 crores on balance of trade savings and created money. A part of it no doubt will come from the increased production as the plan progresses but in the initial stages financing the plan from these sources would definitely mean the tightening of the belt. Even the Zero Programme requires a saving to the tune of 10 per cent. of the National Income and that means more austerity than at present. The Gandhian Plan, modest though it is, depends upon the entire financing of its Plan of non-recurring expenditure of Rs. 3,500 crores and Rs. 200 crores of recurring expenditure in the ten years of the Plan on internal savings and this again means austerity on a considerable scale. All the plans, therefore, seem to agree on the fact that at least in the initial stages of the planned development of our economy the people of this country will have to accept a regime of considerable austerity.

35. Such a scheme of austerity, if it is to invoke the enthusiastic support of all sections of the community, must spread the burden of the industrialisation in such a way that the higher incomes have to bear the proportionately greater burden than the lower incomes. Again, if the workers can be induced to work harder and if need be for longer hours it will loosen to some extent the rigours of the austerity period. But such an appeal can succeed only in the context of economic equality.

36. The next important question is that of directing the savings so created into right channels. The different plans have given different answers to this question. The people's Plan for instance, says : "given the fact that a large volume of the essential demands of the community today remains unsatisfied the first object of the planned economy must be to satisfy it." Their list of priorities therefore gives agriculture the first place, the consumer industries the second place, and the capital industries the third place.

37. Similarly in the Gandhian Plan the pride of place is given to Agriculture and Consumer goods industry. The Zero Programme says that the standard of life of an average Indian today is below the subsistence level. A due observation of priorities would therefore mean that we must first of all produce wage goods *i.e.*, products that are consumed by the labourers like goods, clothing, housing, health and education.

38. On the other hand, the Bombay Plan says that "in the initial stages attention should be directed primarily to the creation of industries for the production of power and capital goods.............. The proposal, however, is subject to this important qualification that provision should be made at the same time for the manufacture within the country of the most essential classes of consumption goods."

39. If we decide to form our capital through austerity and hard work there is no immediate necessity to substantially increase our production from agriculture or consumers' goods industry by diverting our savings in these channels. This does not mean that no effort should be made to increase production in these sectors. Rationalisation of management and production, indispensable replacements of machinery, more judicious use of our raw materials and man power and hard work on all sides will go a long way to increase our production without a large scale capital expenditure. During the initial stages of our economic development, however, maximum concentration of new investment should be in the basic industries like power, iron and steel, machine tool

industry, heavy chemicals and cement; then we may go to the production and fabrication of tools for rationalisation of agriculture and consumer goods industry and lastly to the development of rural industry.

40. Thus the plan of economic development may be divided into three stages, each stage occupying four years. During the first period of four years the maximum of the available capital of Rs. 600 crores should be invested in basic industry. A considerable portion of this capital will be required in form of foreign capital. This should be secured through the export of finished products like textile goods—both jute and cotton, leather goods, etc. This would mean a curtailment of consumption at home. People will have to accept this curtailment. But before they are made to accept it all possible efforts to increase capital by imposing the burden of austerity on those who can afford to bear it must be made. At least 150 crores of rupees will have to be secured through surplus in foreign trade. The rest of the available capital will be required for expenditure at home for the establishment of these industries. Within four years it should be possible to create sufficient raw material and power for our capital goods industry. A considerable portion of the profit earned in this sector of the industry should be ploughed back in the same sector even during the second and the third stages of the Plan.

41. During the second stage the available savings should be invested in capital goods industry which would then be in a position to utilise the product of basic industries enumerated above. This capital goods industry should fabricate tools for the mechanisation of agriculture and for the expansion of consumer goods industry. The profits earned in this sector should be ploughed back in this sector even during the third stage.

42. During the third stage of the industry the savings should be used for developing rural industries. The mechanisation of agriculture and the expansion of consumer goods industry will release a considerable number of people employed in these industries and they will have to be absorbed by the development of rural industries. Even during the first and second stages attempts should be made to re-organise our small scale and cottage industries on a more rational basis by supplying cheap electric power, training personnel and affording credit and marketing facilities but the large scale investment in this sector should wait till the third stage of the economic development is reached.

43. Rapid economic development demands accent not only on savings, but on investments in capital goods rather than consumer goods industries. Russian experience here is of great significance: "Even during the first 5 year plan period, investment in industry and electrification was planned to amount to nearly five times the pre-revolutionary value of the basic capital of Russia's large scale industry." The following table gives the distribution of investment between the two sectors of industry :

	Capital Goods	*Consumer Goods*
1st 5-Year Plan Period	85.9%	14.1%
2nd 5-Year Plan Period	84.9%	15.1%
3rd 5-Year Plan Period	83.9%	16.1%

(The quotation and the table are from the *Bulletins on Soviet Economic Development* published by the Department of Economics and Institutions of the USSR, University of Birmingham).

44. If this Plan be accepted it would mean that our economy would attain equilibrium at a higher stage only after the hard but fruitful effort of twelve years during which the entire population will have to tighten their belts. But this seems to be the only workable Plan and if people are approached in the right spirit and if they are made to feel that it is a common creative effort for the common good of all and if the burdens are equitably distributed and fruits assured to all there is no reason to suppose that our people will fail their country at a very critical stage in its economic development.

45. A mere pooling of our resources and using them in a planned scientific way would not be enough. We must also train our labour for carrying out the huge task. The Scientific Man Power Committee recently estimated the needs of the country at 50,000 and reported that the necessary training facilities were not available. We need not take such a static view of the situation. The training of men is an integral part of a development plan. In the Soviet Union, for instance, "The number of specialists who graduated from the Universities and Technical Schools during the Second Five Year Plan more than doubled during the First Five Year Plan." The total number of workers trained up is as follows :

	Specialists graduated from : Universities	Technical Schools
Total for 10 Years (1928-37)	5,68,600	9,42,800
During the 1st 5-Year Plan	1,70,000	2,91,200
During the 2nd 5-Year Plan	3,69,900	6,23,000

(b) *The place of cottage and small scale industry.*

46. This question has already been answered above. All the industries that can profitably be developed without extra capital required on a large scale should be developed on small scale and cottage industry basis. The experience of Japan has shown that there is hardly any Consumers goods industry which cannot be developed on a small scale and cottage industry basis.

(c) *Protection to Cottage and Small Scale Industries.*

47. In a planned economy where the capital, raw material and man power are directed according to a carefully prepared plan and where foreign trade is in the hands of the Government the question of protection does not arise. Credit and marketing facilities would suffice to protect this sector from foreign and indigenous competition. If however protection is found necessary it should be in the form of subsidy (preferably in terms of technical aid, land concessions etc.) and not tariff protection. Subsidy is calculable and people can have a better appreciation of how the money paid out of their exchequer is used. The effects of the latter are often complex and cannot be easily determined. The former should, therefore, be preferred to the latter.

(d) *Qualification for protection.*

48. This question also does not arise in a planned economy. An industry is worthy of protection if it fulfils some function in the furtherance of the general plan. Normally with foreign trade in the hands of the Government no protection should be necessary. If, however, protection is found necessary it should be through subsidy and not through tariff for the reasons stated above.

Section V—Balance of Payments Problems.

(a) *Disequilibrium in our balance of payments.*

49. For the last thirty years a welcome change is visible in the composition of our foreign trade. There is a striking fall in the physical volume of imports of goods like cotton piecegoods, iron and steel manufacture and cement and almost complete disappearance of imports of sugar soap and matches. On the other hand there is a steady increase in the share of raw materials. After the war the export of raw materials has declined. We had usually a favourable balance of trade on trade accounts. During the War India has succeeded in paying off its foreign obligations and reducing the burden on her economy that they represented. The terms of trade have thus changed in our favour and the inherent position of the country in matters of trade is fundamentally sound.

50. The partition of the country has adversely affected our balance of payments position to a certain extent as we have to import raw jute and cotton from Pakistan. But the recent attempts on the part of the Indian Union to free itself from the dependence on Pakistan in these matters indicate that with the proper management of our economy we should be able to wipe out the difficulties caused by the partition. There is no reason to doubt, therefore, that fundamentally our foreign trade position is sound.

51. The deterioration of our Balance of Payment position is due to temporary causes. Given a sound and vigorous economic policy it is not difficult to lessen the impact of these factors on our Balance of Payments position. We are chiefly handicapped by the necessity of increasing our food imports mainly from hard currency country. It is not beyond the reach of practicability to free ourselves from this necessity or at least to increase our food supply from soft currency areas. Another contributing factor to the deterioration of our position is the *laissez faire* policy adopted by the Government in matters of our imports at times even from the hard currency areas. In their anxiety to increase supply of consumers goods to fight inflation they issued Open General Licences which were used by the trade—many of whom were new to this job—to buy all sorts of goods which they thought were in great demand. Here again, much can be done by a conscious reorientation of our export—import policy.

52. The Export Promotion Committee in its report holds that the disparity in the movements of internal prices and the prices abroad is largely responsible for India's present adverse balance of trade. The causes of this disparity have to be fully investigated. The cupidity and shortsightedness of our traders is proverbial. The continuous and almost universal complaint about the goods not being according to specification is only one instance of this shortsightedness. Charging of excessively high—prices in the sellors' market so far prevailing may be the other instance of the same.

53. Then there is the question of our prices being found higher in the dollar area. Almost all the countries outside this are area finding this difficulty. In fact this is nothing else but the indication of the fact that America can meet almost her full requirements from her internal resources and is generally independent of the outside supply. While she has got a fairly sizeable exportable surplus due to her mass production technique. This technique also means a lower cost per unit of output that is possible anywhere else in the world.

54. Whether the costs in our export goods industry compare favourably with other countries or not is a question which cannot be satisfactorily answered without a scientific cost accounting in these industries. In the absence of that all that we can say is that if the prices of our goods compare unfavourably in the foreign markets and if the cupidity and shortsightedness of our traders cannot wholly account for that the explanation will have to be formed in the inefficient management in the prices of industrial raw material and the prices of consumers goods entering in the working cost of living indexes. In such a case the problem of nationalising the management and the question whether the prices of these goods and materials can be lowered without injustice being done to any one should be explored. If the prices cannot be so lowered there would be a fairly good case for subsiding these industries.

(b) *The remedies for correcting the present mal-adjustment* :

55. Our present difficulties are therefore due partly to international circumstances over which we have no control and partly to the lack of a consistent policy of the Government in the matter. The control, development and direction of our foreign trade should be envisaged as a part and parcel of the development of the Union economy as a whole. It is necessary to replace the existing tariff board by an institution which has a comprehensive responsibility in respect of both import and export trade. At least for some time we must cease to depend on a multilateral trade and should enter into bilateral agreements with other countries to obviate exchange difficulties and price fluctuation.

SECTION VI—EFFECT OF PARTITION.

(a) *Steps to meet the difficulties regarding the supply of raw materials like raw jute and cotton :*

56. There is no doubt that the Partition of the country has created serious difficulties regarding the supply of raw jute and raw cotton, and it is necessary to take steps to meet the same. The devaluation of the Indian Rupee has made the situation all the more acute and the public attention has been focussed for some time now to this weakness in our economy.

57. As far as the supply of raw jute is concerned it is believed that with mills closing down for one week in a month for the time being the existing stock of jute in the godowns of the mills and our indigenous supplies should enable our mills to continue functioning without interruption. This is of course a drastic remedy and creates many other problems like the industrial relations, possible curtailment of our exports to hard currency areas etc., and a more satisfactory solution will have to be found.

58. This solution can only be growing of more jute in the country and the readjustment of production technique to make it possible the mixing of meta and herup with jute for the production of socking. As far as the question of growing more jute is concerned it has been suggested that there is a considerable scope for expanding jute cultivation in Assam. The Commerce Member has declared in the Parliament that in other areas also it is possible to expand jute cultivation without affecting areas that are vitally necessary for food. It is suggested that it is possible to increase the supply of raw jute in India to the level of 4 million bales.

59. Even if it be found that the expanding of jute production will affect our rice position the expansion of jute must be allowed as after the South East Asian countries have settled down to normalcy it will be possible and more advantageous to import rice from devalued areas than to buy jute from Pakistan.

60. As regards cotton the problem is still simpler. Our dependence on Pakistan is variously estimated as to the extent of 4 to 5 lakhs of bales. The Indian Central Cotton Committee in its recent meeting in Bombay has considered a plan of increasing production of cotton of the varieties imported from Pakistan or of American and indigenous varieties comparable to them grown in India. It has been estimated that it would be possible to increase the production of these varieties by about 155,000 bales at the end of two years. The Committee seems to be of the opinion that if sufficient funds are made available to increase, *inter alia,* fertilisers, improved seeds, irrigation facilities etc., it would be possible to increase the annual production of cotton from 3 million to 4 million bales in a comparatively short period.

THE SOCIALIST PARTY

Section I—Agriculture and Population.

(a) *A shift of population from agriculture to secondary and tertiary industry :—*

No elaborate statistics are required to prove that till very recently there has been a continuous increase in the pressure on land in our country. The steady increase in population, the decay of indigenous industries, lack of other avenues of employment, the rise in land values are some of the causes for this increased pressure. This, coupled with the fact that the debt burden on the agricultural classes was continuously increasing, led to the emergence of a class of landless labourers. These labourers are unemployed over a considerable part of the year. Naturally, *per capita* income from agriculture is very low and this is a major symptom of India's general poverty. Recently a slight shift from rural to urban areas is visible and the income from primary sector is also said to be rising. But even if this be true there is yet a very heavy pressure on land and no rise in the average *per capita* income in the country and the standard of living of the common man can be expected till there is a substantial shift of the population now dependent on agriculture to secondary and tertiary industries.

While admitting this it must be remembered that this does not mean a shift from rural to urban areas. Already our civic administrations in urban areas are on breaking point, housing problem in these areas has assumed alarming proportions and the transport facilities in the country are far from being adequate. Any further load on these services, therfore, would mean a disaster. The secondary and tertiary industries, therefore have to be taken to the rural areas and not the population to the areas where they are mostly located at present.

Another important fact to be remembered in this connection is that this shift should be permanent in the sense that rural industries should not be a spare time occupation. Farmers in their attempts to become artisans or industrial workers will be efficient in neither. Both efficient farming and cottage and small scale industries require a degree of scientific and technical skill which calls for specialisation. Hence a part of the population now dependent on agriculture should be permanently shifted to secondary and tertiary industries.

(b) *Mechanisation of Agriculture* :

The next question is how this shift is to be achieved. The present technique and organisation of our agriculture is such that during the busy season it requires almost the entire population now dependent on agriculture. In order to make the desired shift possible, therefore, the efficiency of our agricultural production has to be increased. One way of doing it is to mechanise agriculture. Unfortunately there is an acute difference of opinion on the question of the desirability of a large scale mechanisation of agriculture. Names of conjure with in the realm of science have warned against such mechanisation. Even apart from this consideration such a mechanisation can be justified only if it increases the efficiency of agriculture measured both in terms of people employed directly or indirectly in agriculture and the capital sunk in this sector of our economy.

It has been argued that mechanisation may mean fewer men per operation but not necessarily per acre, as it creates several new classes of employment like making of the machines, their management and repairs, distribution of the spares the fuel and the lubricants etc. Such a creation of new classes of employment would certainly mean a shift in occupation. If the mechanisation does raise the yield per acre it may also mean a greater *per capita* income; but whether it will mean a greater yield on the unit of capital sunk is doubtful.

Again, even if such a mechanisation is desirable it is not practicable in the near future. Such a mechanisation will require a large amount of capital which is more urgently required in other sectors of our economy. In the

absence of any large scale machine tool industry in the country it would also require a substantial amount in foreign exchange which we can ill afford at the present juncture. Again the new channels of occupation opened as a result of mechanisation would require the amount of technical skill and organising ability singularly lacking in our agricultural population today. A large scale mechanisation would, therefore, create functional unemployment seriously unbalancing our rural economy. Any large scale mechanisation of our agriculture, therefore, even if desirable is not practicable.

(c) *Rationalisation of Agriculture* :

This leaves us the alternative of the rationalisation of agriculture without mechanisation on any large scale. If this rationalisation is brought about in a successful manner a part of the population thrown out of employment as a result of such a rationalisation can be readily absorbed. What is required is a complete reorganisation of the social and economic framework of our rural economy consolidation of fragmented and scattered holdings through the creation of agricultural co-operatives, the production, purchase and supply of improved seed, the manufacture of composts and other aids to better cultivation, minor irrigation works and roads, better cattle, seed banks—all these are necessary to rationalise our agriculture. And each one of these activities would require a considerable personnel.

Inspite of this, however, an alternative employment will have to be found for a considerable number of people. This can only be done by the development of cottage and small scale industries. Even this will require the import of machinery and training. The Japanese organisation of these industries can be studied with advantage.

The cottage and small scale industries which can usefully be encouraged fall under three categories :—

(a) those engaged in the production of artistic goods.

(b) those producing articles for mass consumption and

(c) those acting as subsidiaries or auxiliaries for factory industries.

Every effort should be made to reorganise our cottage and small scale industries in each one of these three categories.

The measures necessary for this purpose are :

(a) provision for cheap power

(b) provision for technical training and

(c) provision of finance and marketing facilities.

The provincial Governments should undertake the responsibility of providing the electric power for the use of small and cottage industries at special favourable rates.

In each district a technical training centre should be established. The centre should draw its trainees, as far as possible, from the district concerned. The scheme of education given should be intimately related to the needs of the particular arts and crafts flourishing in that district.

Better finance and improved facilities should be provided through co-operative institutions. These institutions should be federated at the provincial level into a provincial organisation with the following functions :

(a) exploring the possibilities of improving the technique of production.

(b) securing financial assistance and

(c) the study of the markets for the goods produced by the small scale and cottage industries.

Section II—Capital Requirements.

(a) *Indigenous Capital* :

The question of capital formation is the key problem of our economy today. Since the publication of the Bombay Plan till now many estimates have been made of the available indigenous capital. According to the Bombay Plan apart from the Sterling Balances and Foreign Borrowings Rs. 8,300 crores or were likely to be available in the course of 15 years. Rs. 900 crores from Hoarded Wealth and Balance of Trade and Rs. 7,400 crores from savings and "created money". According to the Peoples Plan the finance available in 10 years was Rs. 14,550 crores. The 'Gandhian Plan' prepared by Sri Agarwal expected the total expenditure during the period of 10 years to be Rs. 3,500 crores non-recurring and Rs. 200 crores recurring met from indigenous sources. The zero Programme placed the available capital at Rs. 6,000 crores in the course of 10 years. Recently the Eastern Economist has come out with a Peoples Plan covering five years. According to their estimate the total volume of internal savings available to finance the plan would be roughly Rs. 1,000 crores. Thus from nearly Rs. 550 crores of average annual savings of the Bombay Plan we have come down to Rs. 200 crores of average annual savings. According to the same paper our National Income in 1947-48 was Rs. 3,942 crores in Indian Provinces alone. For any adequate scheme of rapid industrialisation of our country we must save at least 10 to 15 per cent. of our National Income. In other words we must save in the order of Rs. 400 to 600 crores per year.

It is not easy to reach this target. Our capacity to save depends upon our capacity to produce and our capacity to reduce consumption. Our productive capacity is very low. Our agriculture is in a hopeless state of disorganisation. There is hardly any saving in our Primary Sector. Our industrial development is lop-sided. Out of 5013 major industrial establishments in the country with total investment of Rs. 458.5 crores only 325 factories belong to heavy industry with capital investment of Rs. 60 crores. A significant portion of the productive capacity of our industry remains unused. Our industries are highly trustified with the result that in eleven major groups of industry capital invested increased by only Rs. 9 crores or just three per cent. between 1938-39 and 1946. During the war years production was stepped up and our capital resources were recklessly used. This has affected adversely the productivity of our worker which has fallen from 100 in 1939 to 78 in 1947-48.

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The failure of capital formation is due to (1) lack of savings (2) insufficient conversion even of available savings into capital and (3) low production which does not leave sufficient margin for savings.

To promote the growth of savings it is necessary to impose an all-round restriction on consumption. A scheme of consumption restriction will succeed only to the extent it imposes proportionately greater burden on the higher incomes than what are put on the lower incomes.

To convert savings into capital tax concessions and remissions may be given to undistributed profits ploughed back into the industry. Production should be increased through harder work and better co-ordination production. It will be necessary to carry out rationalisation of organised and unorganised industries and to insist on harder work on the part of both workers and managements.

Physical and psychological bottlenecks hampering the transformation of savings into capital will have to be removed. The physical obstacles to be removed are inadequacy of transport facilities, lack of raw material and capital goods and the lack of trained personnel.

The depressing effects of uncertainties can be removed by an assurance, from the Government and Monetary Authorities of maintenance of stable prices and capital values. The Indian investor must revise his profit expectations fostered during the years of shortage and inflation.

To carry out all these tasks it is necessary to establish a National Planning Commission whose function it will be to suggest ways and means of attaining the targets and to distribute the savings, according to a carefully prepared plan of national development.

(b) *Foreign Loans.*

Looking to the requirements of our economy there is no doubt that a substantial loan of foreign capital will greatly lighten the burden of industrialisation on our people who are already overburdened. Foreign capital should, therefore, be welcomed provided no strings are attached and further that all such aid is brought in by the Government. Private import of capital will lead to the creation of international cartels.

(c) *Conditions attaching the same.*

As the borrowing will be Government to Government no further conditions need be laid down except that the rate of interest should be reasonable in view of the reasonable guarantee of repayment.

SECTION III.—LABOUR

(a) *The relative productivity of Indian Labour.*

Production of an industry or a unit depend upon many factors besides labour. It is therefore very unfair to compare the productivity of labour in India with that of industrially advanced countries. As the Report on the Committee on Profit Sharing puts it "The Productivity of labour is dependent, among other things, on the nature of the equipment and the efficiency of organisation and supervision. Then again, the measurement of total production in terms of a common unit is a very difficult task. Even the final products of an industry or undertaking are not always uniform and easily measurable". In the absence of standardisation of the production equipment, raw materials and working conditions a comparison of productivity is bound to be arbitrary and misleading.

(b) *The causes of low productivity.*

All that we can say, therefore, is that there is much scope for improvement in the productivity of our industry.

Our industrial capital equipments were overworked during the war and the machinery is worn-out. There is no uniform scientific practice in the use of raw materials. Much can be done to improve the labour-management relationship by creating an atmosphere in which a worker can feel a creative joy in his work. A scheme like that of the Training within a Industry of Britain can be devised to improve the technical skill of the worker.

(c) *Decrease of the productivity of labour in recent years.*

If it is difficult to compare the productivity at different periods of time. To quote the Report of the Committee on Profit Sharing again "the basic conditions in any one year may be quite different from the conditions on which the norm has been determined. The production equipment might have increased or diminished or improved or deteriorated in the meantime. There may be unvoluntary interruption for which no one is responsible. To compare actual production in any given year with the norm would therefore, be extremely unscientific and unsatisfactory". If a rule of the thumb is employed and the productivity is measured by the product divided by the labour force employed productivity has gone in recent years. The causes may be the worn out condition of our machinery and a pervading sense of grievance amongst the workers due to a continuous fall in real wages. This does not enthuse them to contribute their best in production. A general deterioration in our business standards as evidenced by reckless black marketing and profiteering is also responsible for this.

SECTION IV.—INDUSTRIALISATION.

(a) *The Pattern of Industrialisation* :

The problem of determining the pattern of industrialisation is really the problem of answering two distinct questions :

(a) in which sector of our economy we would like to enforce savings ; and

(b) in which sector of our economy we would like to invest these savings.

In the *laissez-faire* system these questions are determined by the propensity to consume, by prospective yield on investments and by the liquidity preference. In a planned economy the questions have to be answered in terms of the requirements of the economy as conceived by some planning authority.

Many answers have been given by the different plans to the two questions formulated above according to their assessments of the requirements of the situation. As for the first question as to from what sector of the economy the savings should come. All the answers ultimately boil down to a temporary cut in consumption. Peoples Plan for economic development of India prepared by the reconstruction committee of the Indian Federation of Labour, for instance, in paragraph 116 of the Report says : "The growth of industries as well as the provision of the services such as those of health, education and housing will depend upon the extent to which a surplus is created in the economy, and the creation of that surplus will naturally be the task of the principal industry in the country, *viz.*, agriculture" and in paragraph 117 they say : "in the beginning a considerable portion of labour would be diverted to the purpose of reclaiming the cultivable land as well as for the irrigation schemes". These items in the initial stages would mean work without immediate results and to that extent would mean austerity. Similarly the Bombay Plan depend for their finance to the tune of Rs. 8,000 crores on Balance of trade savings and created money. A part of it no doubt will come from the increased production as the plan progresses but in the initial stages financing the plan from these sources would definitely mean the lightening of the belt. Even the Zero Programme requires a saving to the tune of 10 per cent of the National Income and that means more austerity than at present. The Gandhian Plan modest though it depends upon the entire financing of its Plan of non-recurring expenditure of Rs. 3,500 crores and Rs. 200 crores of recurring expenditure in the ten years of the Plan on internal savings and this again means austerity on a considerable scale. All the plans, therefore, seem to agree on the fact that at least in the initial stages of the planned development of our economy the people of this country will have to accept a regime of considerable austerity.

Such a scheme of austerity if it is to invoke the enthusiastic support of all sections of the community must spread the burden of the industrialisation in such a way that the higher incomes have to bear the proportionately greater burden than the lower incomes. Again, if the workers can be induced to work harder and if need be for longer hours it will loosen to some extent the rigorous of the austerity period.

The next important question is that of directing the savings so created into right channels. The different plans have given different answers to this question. The Peoples Plan for instance, says : "given the fact that a large volume of the essential demands of the community today remains unsatisfied the first object of the planned economy must be to satisfy it." Their list of priorities therefore give agriculture, the first place, the consumers industries the second place and the basic industries the third place.

Similarly in the Gandhian Plan the pride of place is given to Agriculture and Consumers goods industry. The Zero programme says that the standard of life of an average Indian today is below the subsistance level. A due observation of priorities would therefore mean that we must first of all produce wage goods, *i.e.*, products that are consumed by the labourers like food, clothing, housing, health and education.

On the other hand the Bombay Plan says that "in the initial stages attention should be directed primarily to the creation of industries for the production of power and capital goods. The proposal however, is subject to this important qualification that provision should be made at the same time for the manufacture within the country of the most essential classes of consumption goods."

If we decide to form our capital through austerity and hard work there is no immediate necessity to substantially increase our production from agriculture or consumer's goods industry by diverting our savings in these channels. This does not mean that no effort should be made to increase production in these sectors. Rationalisation of management and production, indispensable replacements of machinery, more judicious use of our raw materials and man power and hard work on all sides will go a long way to increase our production without a large scale capital expenditure. During the initial stages of our economic development, however maximum concentration of new investment should be in the basic industries like power, iron and steel, machine tool industry, heavy chemicals and cement; then we may go to the production and fabrication of tools for rationalisation of agriculture and consumers goods industry; and lastly to the development of rural industry.

Thus the plan of economic development may be divided into three stages each stage occupying four years. During the first period of four years the maximum of the available capital of Rs. 600 crores should be invested in basic industry. A considerable portion of this capital will be required in form of foreign capital. This should be secured through the export of finished products like textile goods both jute and cotton leather goods, etc. This would mean a curtailment of consumption at home. People will have to accept this curtailment. At least 150 crores of rupees will have to be secured through surplus in foreign trade. The rest of the available capital will be required for expenditure at home for the establishment of these industries. Within four years it should be possible to create sufficient raw material and power for our capital goods industry. A considerable portion of the profit earned in this sector of the industry should be ploughed back in the same sector even during the second and the third stages of the plan.

During the second stage the available savings should be invested in capital goods industry which would then be in a position to utilise the product of basic industries enumerated above. This capital goods industry should fabricate tools for the mechanisation of agriculture and for the expansion of consumers goods industry. The profits earned in this sector should be ploughed back in this sector even during the third stage.

During the third stage of the industry the savings should be used for developing rural industries. The mechanisation of agriculture and the expansion of consumers goods industry will release a considerable number of people employed in these industries and they will have to be absorbed by the development of rural industries. Even during the first and the second stage attempts should be made to re-organise our small scale and cottage industries on a more rational basis by supplying cheap electric power, training personnel and affording credit and marketing facilities but the large scale investment in this sector should wait till the third stage of the economic development is reached.

If this Plan be accepted it would mean that our economy would attain equillibrium at a higher stage only after the hard but fruitful effort of twelve years during which the entire population will have to tighten their belts. But this seems to be the only workable Plan and if people are approached in the right spirit and if they are made to feel that it is a common creative effort for the common good of all and if the burdens are equitably distributed and fruits assured to all there is no reason to suppose that our people will fail their country at a very critical stage in its economic development.

(b) *The place of cottage and small scale industry* :

This question has already been answered above. All the industries that can profitably be developed without extra capital required on a large scale should be developed on small scale and cottage industry basis. The experience of Japan has shown that there is hardly any Consumers goods industry which cannot be developed on a small scale and cottage industry basis.

(c) *Protection to Cottage and Small scale industries* :

In a planned economy where the capital, raw material and man power are directed according to a carefully prepared plan and where foreign trade is in the hands of the Government the question of protection does not arise. Credit and marketing facilities would suffice to protect this sector from foreign and indigenous competition. If however protection is found necessary it should be in the form of subsidy and not tariff protection. The former is calculable and people can have a better appreciation of how the money paid out of their exchequer is used. The effects of the latter are often complex and cannot be easily determined. The former should, therefore, be preferred to the latter.

(d) *Qualification for protection* :

This question also does not arise in a planned economy. An industry is worthy of protection if it fulfills some function in the furtherance of the general plan. Normally with foreign trade in the hands of the Government no protection should be necessary. If however, protection is found necessary it should be through subsidy and not through tariff for the reasons stated above.

Section V.—Balance of Payments Problems.

(a) *Disequillibrium in our balance of payments* :

For the last years a welcome change is visible in the composition of our foreign trade. There is a striking fall in the physical volume of imports of goods like cotton piece goods, iron and steel manufacture and cement and almost complete disappearance of imports of sugar, soap and matches. On the other hand there is a steady increase in the share of raw materials. After the war the export of raw materials has declined. We had usually a favourable balance of trade on trade accounts. During the War India has succeeded in paying off its foreign obligations and reducing the burden on her economy that they represented. The terms of trade have thus changed in our favour and the inherent position of the country in matters of trade is fundamentally sound.

The Partition of the country has adversely affected our balance of payments position to a certain extent as we have to import raw jute and cotton from Pakistan. But the recent attempts on the part of the Indian Union to free itself from the dependence on Pakistan in these matters indicate that with the proper management of our economy we should be able to wipe out the difficulties caused by the partition. There is no reason to doubt, therefore that fundamentally our foreign trade position is sound.

The deterioration of our Balance of Payment position is due to temporary causes. Given a sound and vigorous economic policy it is not difficult to lessen the impact of these factors on our Balance of payments position. We are chiefly handicapped by the necessity of increasing our food imports mainly from hard currency country. It is not beyond the reach of practicability to free ourselves from this necessity or at least to increase our food supply from soft currency areas. Another contributing factor to the deterioration of our position is the *laissez faire* policy adopted by the Government in matters of our imports at times even from the hard currency areas. In their anxiety to increase supply of consumers goods to fight inflation they issued Open General Licences which were used by the trade—many of whom were new to this job—to buy all sorts of goods which they thought were in great demand. Here again, much can be done by a conscious re-orientation of our export-import policy.

The Export Promotion Committee in its report holds that the disparity in the movements of internal prices and the prices abroad is largely responsible for India's present adverse balance of trade. The causes of this disparity have to be fully investigated. The cupidity and short-sightedness of our traders is proverbial. The continuous and almost universal complaint about the goods not being according to specification is only one instance of this short-sightedness. Charging of excessively high-prices in the sellers' market so far prevailing may be the other instance of the same.

Then, there is the question of our prices being found higher in the dollar area. Almost all the countries outside this area are finding this difficulty. In fact this is nothing else but the indication of the fact that America can meet almost her full requirements from her internal resources and is generally independent of the outside supply. While she has got a fairly sizeable exportable surplus due to her mass production technique. This technique also means a lower cost per unit of output that is possible anywhere else in the world.

Whether the costs in our export goods industry compare unfavourably with other countries or not is a question which cannot be satisfactorily answered with a scientific cost accounting in these Industries. In the absence of that all that we can say is that if the prices of our goods compare unfavourably in the foreign markets and if the cupidity and short-sightedness of our traders cannot wholly account for that the explanation will have to be formed in the inefficient management in the prices of industrial raw material and the prices of consumers goods entering in the working cost of living indexes. In such a case the problem of nationalising the management and the question whether the prices of these good and materials can be cornered without injustice being done to any one should be explored. If the prices cannot be so lowered there would be a fairly good case for subsidising these industries.

(b) *The remedies for correcting the present mal-adjustment* :

Our present difficulties therefore are due partly to international circumstances on which we have no control and partly to the lack of a consistent policy of the Government in the matter. The control, development and direction of our foreign trade should be envisaged as a part and parcel of the development of the union economy as a whole. It is necessary to replace the existing tariff board by an institution which has a comprehensive responsibility in respect of both import and export trade. At least for sometime we must cease to depend on a multilateral trade and should enter into bilateral agreements with other countries to obviate exchange difficulties and price fluctuation. The question of lowering the cost and subsidy should also be pursued if found necessary.

(c) *A pattern of Foreign Trade to achieve a long-term equillibrium in our Balance of payments* :

The pattern of foreign trade is dependent on the pattern of our economic development. The first should be a handmaid to the second. If the pattern of economic development indicated by us is accepted we will have to evolve a pattern of foreign trade to suit that pattern. During the first stage of our Plan we will require sufficient amount of foreign exchanges and we must pay any price for getting our capital requirements. This will have to be paid for by the export of our merchandise at prices attractive in the world markets. This might mean a stringent period of austerity at home. We must face the prospects bravely. Perhaps after the third stage of the economic development is well underway we will be in a position to have a more favourable pattern of the foreign trade, as the cost structures by that time would have come to the level of industrially advanced countries of the world.

In the meantime a closer trade relationship between the Far East and the Middle East should be attempted. As suggested by the recent report of the E.C.A.F.E. Committee on Industry and Trade steps might be taken to bring together with the planning agencies of various countries of the region to consider and undertake appropriate projects the development of which would be mutually advantageous.

Section VI.—Effect of partition

(a) *Steps to meet the difficulties regarding the supply of raw materials like raw jute and raw cotton* :

There is no doubt that the Partition of the country has created serious difficulties regarding the supply of raw jute and raw cotton, and it is necessary to take steps to meet the same. The devaluation of the Indian Rupee has made the situation all the more acute and the public attention has been focussed for sometime now to this weakness in our economy,

As far as the supply of raw jute is concerned it is believed that with mills closing down for one week in a month for the time being the existing stock of jute in the godowns of the mills and our indigenous supplies should enable our mills to continue functioning without interruption. This is of course a drastic remedy and creates many other problems like the industrial relations, possible curtailment of our exports to hard currency areas, etc., and a more satisfactory solution will have to be found.

This solution can only be growing of more jute in the country and the re-adjustment of production technique to make it possible the mixing of meta and herup with jute for the production of socking. As far as the question of growing more jute is concerned it has been suggested that there is a considerable scope for expanding jute cultivation in Assam. The Commerce member has declared in the Parliament that in other areas also it is possible to expand jute cultivation without affecting areas that are vitally necessary for food. It is suggested that it is possible to increase the supply of raw jute in India to the level of 4 million bales.

Even if it be found that the expanding of jute production will affect our rice position the expansion of jute must be allowed as after the South East Asian countries have settled down to normalcy it will be possible and more advantageous to import rice from devalued areas than to buy jute from Pakistan

As regards cotton the problem is still simpler. Our dependence on Pakistan is variously estimated as 4 to 5 lakhs of bales. The Indian Central Cotton Committee in its recent meeting in Bombay has considered a plan of increasing production of cotton of the varieties imported from Pakistan or of American and indigenous varieties comparable to them grown in India. It has been estimated that it would be possible to increase the production of these varieties by about 155,000 bales at the end of two years. The Committee seems to be of the opinion that if sufficient funds are made available to increase, *inter alia,* fertilisers, improved seeds, irrigation facilities, etc., it would be possible to increase the annual production of cotton from 3 million to 4 million bales in a comparatively short period.

SECTION VII.—GOVERNMENT MACHINERY FOR DEVELOPMENT PURPOSES

(a) *The existing administrative machinery.*

The existing administrative machinery is not suited to the tasks of a planned economy. It will therefore, have to be completely overhauled.

(b) *The Government Controls.*

The Government controls should be devised to increase savings and to direct these savings to those sectors where the capital is more urgently needed. They should also direct raw materials and man power in the same manner. They should constitute statutory bodies to carry out a scrutiny through cost accounting and other methods into the working of the industrial establishments. Control over production and prices will also be necessary in a majority of cases.

(c) The establishment of a National Planning Commission is urgently called for. Its function would be to carry out the overall survey of the economy,

to ascertain the needs for capital and resources of the different sections, to co-ordinate the rates of development of these different sectors and thus bring about an absolute economy in the amount of total capital required for given quantum of economic development.

The Commission will be in a position to prevent the exercise or emergence monoply powers.

The Commission should have under it a series of National as well as Regional Supervisory Directorates in charge of different industries. These directorates would be made up of representatives of the public, the workers and the management and would be entrusted with the function of carrying out a scrutiny through cost accounting and other methods into the working of the industrial establishments under them.

There should be a Department of the Planning Commission dealing with the small scale and cottage industries. This department should study the problems facing this sector of our economy and prepare a blue print to provide technical training, cheap electric power and furnace and marketing facilities to those engaged in this sector.

Similarly, there will be an Agricultural Department looking after our agricultural problems, a separate note on which is under preparation.

Another Department of the National Planning Commission should be established to control, develop and direct all foreign trade. In the absence of any over-all Planning a mere establishment of foreign trade advisory Committee or taking over by the Government of a part of foreign trade will not suffice. This Department should enquire into the question of costs and prices of the articles entering our foreign trade and suggest proper remedies. The control of the quality of goods exported should also be under its charge.

With the establishment of such a Planning Commission the entire economy of our country will come under one central direction. This fact should be reflected in the administrative machinery. A Ministry for the Economic Development must be createa and the Department of Industry, Commerce and Supply should be integrated with this Ministry. The Tariff Board will no longer be required as a separate body. It will form part of the Planning Commission.

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The Havana Charter on Trade and Employment which among other things aims at promotion and expansion of international trade by removing restrictions thereon was signed by 53 nations including India at Havana on March 24th 1948. The position at present is that the signatory countries may accept the charter as a whole or reject it and no amendments can be suggested at the present stage. It would thus be observed that we have to assess the advantages and disadvantages of the charter as a whole in deciding upon our course of action.

It may be mentioned that, India is yet an under-developed country and still being in a formative state it is not possible to judge the nature and extent of state assistance required to develop our industries. The charter has specific provisions in these regards and it is therefore apprehended that the acceptance of the charter may not permit the grant of necessary assistance to our industries—new and existing—in every case. Thus the advantages of the obligations under the I. T. O. are distinct while advantages from freer trade are doubtful. It may also be added that the development of industries and internal trade are more important to this country than foreign trade. In view of these facts my Committee are unable to advocate ratification of the charter and do not feel called upon to reply to the Questions 89 to 98.

As regards G.A.T.T. the Government spokesman has stated that the guiding factors taken into consideration while granting tariff concessions were :

(1) The concessions should not relate to products which were protected or in respect of which claims for protection were likely to be made during the next three years, and

(2) The concessions should not result in excessive loss of revenue.

In this connection, Government may not have the information regarding the possibility of an industry approaching for protection during the next three years and they may grant concessions to other countries which may have prejudicial effect on such industries. We have therefore to submit that before entering into new agreements the Government should ask for the opinion of the chambers of commerce regarding the possible effects of such measures.

As regards the tariff concessions already granted, it may be stated that economic and political changes of vast magnitude have taken place thereafter. The pattern of India's foreign trade is rapidly changing. As such, my Committee are of opinion that the entire question of tariff concessions should be reviewed at the end of 1950 in the light of new circumstances.

PART I

SECTION A(i)

Question 1.—During the last quarter century, though agriculture still retains its predominant importance, there have been vital changes in the economic conditions. In our view, the principal factors which have influenced the economic conditions are (1) the separation of Burma. (2) the partition of the country, (3) the war and aftermath of war and (4) the Industrial Development.

The main changes are, (1) deficit in food grains and raw materials like cotton and jute, (2) self-sufficiency in consumers goods like cotton textile, matches, sugar, cement, etc., (3) Development of iron and steel, coal, hydro-electric, automobiles, machine-tools and such industries as well as of the ancillary industries like Bobbin, Starch, Paper, etc., (4) as a result of the absence of competition from chief exporting countries, our manufactured goods have found some foreign markets, (5) India has become a creditor on capital account and (6) we are facing adverse balance of trade.

These are some of the factors which call for a change in the approach to the problems with which the present Commission is concerned.

Question 2.—For years the net *per capita* area sown in India has shown a persistent decline, since more or less the same area of land has had to support a growing population. Thus *per capita* area for British India had declined from 0.90 acre in 1911 to 0.72 acre in 1911. With the growing population, the figure became still lower. The situation was further aggravated by the partition of the country, as a result of which important supplies of wheat and rice were lost. As regards raw materials, pre-partitioned India had virtual monopoly for the production of Jute and stood next to U.S.A. in world production of cotton, but now she has become an importer of these important commodities.

With the growing population, the consumption of food increased. The rise in money income of the working classes resulted in increasing the consumption of staple food like rice and wheat. Thus the food production of Indian Union is short by nearly 5 million tons of its requirement today.

As a result of this, imports of food grains have increased to an alarming extent. As regards raw materials, we have to import raw cotton and jute while with the increasing internal consumption, oil seeds have ceased to be an important item of export. Tea alone retains its place of importance in export trade.

Question 3.—In our opinion, these changes have affected the growth and development of our industries :—

(1) by diverting our resources for increasing production of food-grains,

(2) by reducing our foreign exchange for imports of machinery,

(3) by requiring the transfer of land from non-food crops to food-crops.

These conditions will in our opinion possibly retard our industrial progress especially of key and capital goods industries, while there will be scope for the progress of small scale and ancillary industries.

Question 4.—The country should not and cannot go on importing food on the scale it is doing to-day. Self-sufficiency as regards food and raw materials should be the goal of our agricultural policy, because as long as the food scarcity and the scarcity of raw materials such as cotton and jute continues there is no possibility of carrying out the industrial plans. The attainment of agricultural target must, therefore, be ensured with the help of experts to get more out of the land with the help of fertilisers, improved implements, tube-well fittings and other equipments which so far as possible we must produce ourselves. As regards minerals, possibilities of oil resources should be investigated and important minerals like Manganese, Mica, Bauxite which are of industrial utility should be developed on modern lines so that they may help the key industries.

Question 5.—In spite of the difficulties and obstacles which India has to face, there has been some progress in industrial development. India has been placed as one of the eight leading industrialised countries of the world. In a number of consumers' goods like sugar, matches, cement and cloth, the country has reached self-sufficiency. Under the shelter of closed markets after 1939, important industries, *viz.*, manufacture of Soda Ash, Starch, Textile Machinery, Fertiliser, Electric Conductors, Ship Building, Cycle, Road Rollers have developed. But however, what is more important is that we are still dependent on foreign countries for the supply of machineries and other capital goods so essential for establishment of new industries.

Question 6.—The Fiscal Commission's (1922) observation that the Industrial development has not been commensurate with the size of the country, its population and its natural resources holds good even today Our observation on the main deficiencies are as under :—

(a) We are in urgent need of basic and key industries which are essential for rapid industrialisation and national self-sufficiency.

(b) Volume of production of our industries excepting sugar, matches and textile, is still below the requirement.

(c) Operative costs have been very high which has come in our way in promoting export trade.

(d) Quality of management is, in our opinion, is of general efficiency and economy. It may be mentioned that India's present industrial development owes much to the far sighted policy adopted by our industrialist in spite of many handicaps.

(e) The supply of capital to established industries is generally forthcoming, but as regards the new industries on account of vacillating policy of the Government and such other factors the supply of capital is far from satisfactory.

(f) As regards raw materials, India is placed favourably excepting raw cotton and jute. The main item of fuel—coal—comes from Bihar and Bengal, which results in heavy transport charges to Industrial centres in other parts of the country. In our opinion, rapid installation of Hydro-electric power stations in different parts of the country will be helpful to the industry.

(g) India still lacks high grade technical ability.

(h) Supply of skilled and unskilled labour is satisfactory.

(i) Efficiency of Indian labour is still very low and is one of the handicaps in industrial development.

Question 7.—(a) While modern industry has made only a moderate advance in this country, the small scale and cottage industries form an organic part of our economic life. The number of workers in the various cottage and small-scale industries is still larger than those of the operatives employed in the organised industries, but these industries are to a large extent in an unorganised state. Various measures taken by the Provincial Governments have served to focus our attention on this urgent problem of our rural economy but it may be mentioned that much remains to be done.

(b) (i) As ancillary to agriculture, the small scale and cottage industries will give work to our agriculturist during the off seasons which results from the seasonal character of agricultural operations.

(ii) In our opinion, such industries should be developed as complementary to large-scale industries.

Question 8.—Yes. Even in highly industrialised countries like Japan and Germany such industries play an important role in the economic life. Under the peculiar economic conditions of India, small-scale and cottage industries will in our opinion have significant role to play both under the present circumstances as well as in the long run.

SECTION "A" (ii).

Question 9.—(a) Some of the cottage industries which may be developed as subsidiary to agriculture are as under :—

(1) Seri-culture, (2) dairy farming, (3) leather works, (4) Pottery, (5) cane and bamboo work and (6) forest industry.

(b) As supplementary to large-scale industries :—

(1) foundaries and repair shops, (2) bobbins manufacture, (3) Pickers, (4) Tape making, etc.

(c) As independent units of production we suggest : (1) industries relating to Fine Arts, (2) Lace work and Embroidery, (3) Gold and silver thread making, (4) Metal industries and cutlery, (5) Cosmetics, (6) Tiles, etc.

Question 10.—Those cottage industries which supply the needs of people of artistic taste and which are peculiary suited to be worked on small-scale like (1) shawl in Kashmir which have got international market (2) Lace and silk embroidery (3) Ivory and sandel-wood carvings should receive special attention.

Question 11.—In our opinion protection to large-scale industries has not adversely affected the small-scale cottage industries in any way, but has assisted them on the other hand.

Question 12.—(a) In our opinion, there is no shortage of raw materials for such industries. But as far as possible such industries should be so organised that the movement of raw materials from one area to another is minimised.

(b) The small-scale and cottage industries suffer from dearth of technical skill. The Government should undertake and encourage research training for the purpose of efficient development of such industries.

(c) & (d) The technique of manufacture and the organisation of these industries are still in primitive condition. They should be developed on modern lines, as far as possible on co-operative basis.

(e) The Co-operative Banks and other local sources as well as the Provincial Government should help such industries by giving loans.

(f) It is because of the defective marketing organisation that such industries are handicapped. The product of these industries should in our opinion be sold so far as possible through consumers' societies and multipurpose agriculturists' societies.

(h) To avoid possible competition with large-scale industries, such industries should be developed on complementary supplementary basis.

Question 13.—In our opinion, all such trade agreements should be examined by the Trade and Industrial Planning Commission.

Section B.

Policy of discriminating protection and its application since 1923.

Question 14.—The basic policy of protection was discrimination. The Fiscal Commission has laid down three conditions which the industries had to satisfy for selection. The Tariff Board very rigidly adhered to these conditions. This formula harassed the applicant industries with its unnecessarily restrictive provisions and created bottlenecks and hurdles for them, unheard of in the history of the world's protectionism. The Tariff Board on two occasions, however, deviated from this policy, viz., (1) It recommended protection to the glass industry even though Soda Ash, an important raw material was not available in India. (2) They recommended bounties to superphosphate industry which had not come into existence. But the Commerce Department of the Government of India immediately stepped in and pointed out that these industries did not satisfy the conditions and therefore denied protection to them. In effect, therefore, there was no deviation. The policy itself had many shortcomings and it has therefore proved to be inadequate and in-effective to help rapid industrialization.

As regards non-fiscal measures, a single instance will be enough, in our opinion to show the negative policy adopted by the Government. The Tariff Board on Heavy Chemicals pointed out that a policy of reduction of Railway freight with a view to the formation of a large scale chemical industry in India will be advantageous not merely to the national interest but to the interest of the Railway Companies. But the Government differed from the Board, considered the suggestion as wrong in principle on the ground that 'railway rates should be fixed purely on the basis of commercial principles and not with a view to subsidizing industries.'

Question 15.—The working of the policy, from the point of view of the results achieved is far from satisfactory. The main defects among others are as follows :—

(i) The procedure adopted was very cumbrous and dilatory. It took a long time to pass through the sifting process so elaborately arranged that the industries were in many cases on their last legs before they received protection.

(ii) The rigid application of the triple formula was another handicap.

(iii) The method of costing was quite unsatisfactory. In some cases, the Board had to make arbitrary allowances, additions and subtractions in the computation of the figures, in the other prices were so unsteady and fluctuating owing to their manipulations by the foreign industrial combinations that scarcely any value can be attached to the quotations as reliable criteria for the measure of protection required.

(iv) The Commerce Department of the Government had its preconceived ideas on many of the occasions, and sat on judgment upon the reports which were presented by the Tariff BBoard after laborious and searching inquiries and modified their recommendations in 11 cases and rejected recommendations in 6 cases.

(v) The Fiscal Commission had recommended institution of a permanent Board. The practice of the Government had been to appoint a separate Tariff Board for each inquiry which certainly was not the intention of the Fiscal Commission.

If there has been any development of industries at all, it cannot be said to have taken place because of the Fiscal policy but mainly inspite of it.

Question 16.—In our view, the conditions prescribed by the Commission were not only unduly stringent but were on the whole irrelevant, mutually inconsistent and generally unworkable. Thus the first condition which emphasized the existence of natural advantages, simply indicated the factors to be looked for in judging the ultimate ability of the industry to stand on its own legs. If the industry possesses all the 'natural advantages' it will not need protection, and will thus fail to satisfy the second condition, that it is not likely to develop at all without the help of protection. Thus the second condition was inconsistent with the first. As regards third condition, it is really unworkable in view of the fact that it is very difficult to forecast the circumstances affecting the industry over a period of years and the probable variations during these periods in the level of import prices. That part of the Tariff Board's work was more or less speculative based on imaginary forecast which in many cases proved false. Thus the triple formula was misleading in nature and had done more harm than good to the Indian industries.

Question 17.—The supplementary mesaures for protection of, and assistance to industries as recommended by the Commission in Chapter VIII of their Report would have been of assistance to them but since they were not implemented whole-heartedly by the Government of India, we are unable to say what are its effects.

Question 18.—The qualifications laid down by the Government of India were in our opinion, not only mutually inconsistent but were also incompatible with the one of the conditions for protection laid down by the Fiscal Commission. This has clearly been borne out by the working of the policy of Discriminating protection.

It may be mentioned that during 1923-39 customs formed between 55 to 70 per cent. of the total tax revenue of the Government. This dependence of the Government of India on import, export and excise duties as a source of revenue had considerable influence on the tariff policy and the development of industries. It has no doubt a positive as well as a negative aspect but on the whole this has proved to be injurious to the national interests to illustrate in some cases like sugar and matches revenue duties afforded protection and the industries could develop under their shelter. But due to increased production of these commodities, there was a substantial decrease in revenue. The Government therefore decided to impose excise duties to make up the loss. The policy which was not at all justified in principle added to cost of production (Matches, Sugar, Iron-steel) and increased the burden on consumers.

Besides it may be mentioned that due to catastrophic fall in prices as a result of depression as well as policy of intensive nationalism followed by the foreign countries, the value of imports fell considerably after 1929. This naturally meant a loss of customs revenue. The Government therefore increased

the field of revenue duties, and levied import duties on raw-cotton, Machinery Mill-stores and dyes. This naturally added to the cost of production and the Government had therefore, to grant increased protection.

The main developments during the respective periods are briefly as under :—

1923-29 : (1) There were no substantial changes in Tariff.

It was an era of mainly revenue duties.

1930-34 : (2) During this period there was expansion in field and increase of revenue duties.

1935-39 : (3) The Government resorted to excise duties as a source of revenue during this period to compensate the loss which resulted as a result of the policy of discriminating protection.

Question 19.—The changes no doubt mark some improvement in the approach to the problem but in our opinion, the terms of reference to the Tariff Board of 1945 gave a restricted scope and contained nothing which could offer any real guidance to a Tariff Board in selecting an Industry for protection. Under the first condition, grant of protection to embryonic industries is denied while the conception of soundness of the industry referred therein is a very difficult concept to be properly defined. As regards financial stability and efficient management, it may be stated that these are not the tests for adjudging the claims of industries to protection, but assumptions on which the measure of protection should be estimated.

The main consideration on which the eligibility of an industry for protection should be determined is whether it is an industry of sufficient national importance from the point of view of defence and security and maximum utilisation of human and natural resources. All other considerations must be subordinate.

Question 20.—We believe that since the interim Tariff Board was appointed by the Government in November 1945 with the restricted scope, the work of the Board until a year and a half ago, did not provide much ground for encouragement, because the Board has been prone to take restricted view of its functions. But after the delegation of further powers the Board itself has shown appreciation of its functions at a time when it was practically the only sheet-anchor left for our struggling industries. The reports on motor-batteries, cycles and sericulture breathe a practical understanding of our industrial difficulties.

It may, however, be pointed out that in considering the adequacy of protection undue importance should not be given to the size of the industry or to the 'representative' cost. Thus after 1½ years a case (textile machinery) expressly referred by the Commerce Department on an infant industry ground, was declared to be premature because the industry could not produce representative cost at the time of inquiry. In case the size of the industry is small it should be helped by way of subsidies, but in no case should be left at the mercy of foreign competitors.

Section C.

Review of the effects of past tariffs Policy.

Questions 21 & 22.—Answers with special reference to cotton Textile Industry.

	1932	1939	1948
(a) Capital invested in the Industry (Paid up) (in crores) . . .	37·47	38·98	73·01
(b) Rated capacity No. of Mills .	339	389	408
Spindles installed . .	9,506,083	10,059,370	10,265,841
Looms Installed	186,341	202,464	197,469
(c) Output			(1947)
Cloth woven in Million yards . .	2,999	4,269	3,890
Yarn spun (Bales of 400 lbs.) in Lace	24·16	32·58	33·45
	1929-30		June 1949
(d) Employment	614,039	583,873	743,441

Questions 23 & 24.—The number of units in the Bombay Province which enjoys the prominent position in the cotton textile industry has remained more or less same after 1932. On the other hand, number of mills in the States as well as the Provinces of Madras, U.P., Bengal and C.P. has increased during the interwar period.

During the pre-war years some industries supplying mill gin stores and chemicals were established and under the shelter of the closed markets during the war, a number of ancillary industries have developed. Important among them are as under :—manufacture of bobbins, starch, roller skins, pickers, craft papers, textile machinery and tools, spare parts, etc.

(b) The protection granted to cotton textiles industry has no doubt helped the industry to maintain its present position because the protective measures were to a large extent of safeguarding nature. But it is difficult to assess the exact part played by the protective measures in view of the other factors that have assisted the industry.

Question 25.—During the last quarter century, various technical improvements have taken place in Western Countries in the cotton textile industry and Indian mills have in many cases adopted these new methods which have resulted in progressive mechanization and in introduction of new economies. Thus Dhobi bleaching and hand dyeing have been replaced by machinery. High draft system in ring spinning, self-stripping apparatus in cards, high speed wrapping and winding machines, have been installed. With these improvements, quality of Indian product has improved a great deal.

The quality of the Indian product has improved and the consumption of long-staple foreign cotton has increased. The development of ancillary industries has resulted in greater utilization of the available raw materials but still there is considerable scope for development of other ancillary industries.

Question 26.—(a) The supply of technical personnel has increased to a certain extent.

(a) Yes.

(b) Yes.

(c) Yes.

(d) Doubtful.

Question 27.—The Textile mills in Ahmedabad have contributed Rs. 48 lacs and have in co-operation with the Government, established a Textile Industry's Research Association to carry on research work on modern lines.

Question 28.—Revenue tariffs have indirectly helped the growth of industries like sugar, match, etc.

Question 29.—It may be mentioned at the outset that many forces of great significance have influenced the course of foreign trade during the period under consideration. Thus, depression, currency fluctuations and economic nationalism have all been operative. With the small proportion and with a low level of protective duties and the small degree of positiveness, the effect of Fiscal Policy is comparatively small and in the medley of forces referred to above, it is difficult to distinguish the effects of protection on volume of trade.

At the same time protection has certainly affected the character of our foreign trade. Many of the protected commodities figure less in the import trade while the growth of industrialists with the accompanying rise in the standard of living of the industrial classes has encouraged the imports of luxury goods. On the export side, there were few outstanding changes in the character of the foreign trade.

(b) Importance of our domestic trade has increased with the growth of indigenous industries.

Question 30.—Yes. The Tariff Board of 1932 recommended protection to the Cotton Textile Industry when its claim was overdue. But this grant of protection was followed by Imperial preferences. Ottawa Agreement and Indo-British Agreement which nullified the effects of protection as regards the goods from United Kingdom. The duties on imported cotton, dyes, machinery and stores had also adverse effect on the growth of the industry.

Section D

Factors in the formulation of a new Fiscal Policy

Question 31.—(a) 1939-45 : This was a period of war. The important manufacturing and exporting countries were involved in it. As a consequence, imports substantially declined. There was also shipping shortage and Government had to regulate imports and restrict the same to Defence and essential requirements. During this period, there was demand of manufactured goods from India from the neighbouring countries which could not obtain the same from abroad.

Under the stress of these circumstances, there was substantial decrease in the imports of foodgrains as well as in the manufactured articles, and the export of these items showed increase. The increase in exports of manufactured articles was significant because it was due to a certain extent to the increased industrial activity. In the war-time the country exported more than it imported, with the result that out of the export earnings considerable sterling balances were built up.

(b) 1946-49 : During this period, India has suffered from the deficit of food and food imports have increased to an alarming extent. As a result of partition, raw-jute and cotton have become important items of imports. The value of imports of machinery has increased progressively which amounted to Rs. 32.75 crores in 1946-47, to 80.87 crores in 1948-49. With the relaxation of import control, the imports of luxury goods have gone up, but on the whole our export earnings on the present scale are not sufficient to pay for our necessary imports. It has therefore become imperative to step up our exports.

Question 32.—During the second world war, the Government had to place various restrictions on the import and export trade. This gave an impetus to the growth of ancillary and medium size industries but the absence of key and heavy industries was acutely felt. On account of our strategic position, we were able to capture foreign markets for some of our manufactured goods as there was no competition from industrialised countries.

During the post-war years on account of various reasons, almost all the countries have to control foreign trade. The problem of foreign exchange has assumed unprecedented importance. In our opinion, the Government of India has failed to follow a co-ordinated and consistent policy during this crucial period. The problem of promotion of export trade has received proper attention only recently when the adverse balance of trade has reached abnormal

level. As regards import trade control, in our opinion, the chief drawbacks of the policy and the manner in which it has been implemented have been that it has resulted in (1) Blocking of money and foreign exchange and thus tightening of the country's finances, (2) Frittering away of valuable foreign exchange, and (3) Affecting some of the indigenous industries adversely.

Question 33.—The fundamental premise on which the recommendations of the Indian Fiscal Commission, 1921-22 were based was that the industrial development was not possible without stimulus of protective duties. During the period of war, a number of industries developed without the aid of protection. But this protection lacks the assurance of permanence and fails to give the sense of security which arises from the deliberate adoption of the policy of protection, and this is what has happened in the post-war years. A number of industries have approached the Government for grant of protection and in our opinion, without necessary assistant by way of protection, it may be difficult for these industries to stand against the foreign competition.

Question 34.—Both the Fiscal as well as the Non-Fiscal measures are useful and necessary but between the two, in our opinion, fiscal measures are more important and effective as direct and immediate measures of assistance. The Non-fiscal measures which would indirectly help industrialization in the long run, should also deserve due attention.

Question 35.—In our opinion, an appropriate tariff policy can further our foreign trade and assist in the development of our industries to an appreciable extent.

Question 36.—In our opinion in the short period, the objective of the tariff policy should be the maintenance of maximum employment of labour and natural resources by grant of effective protection to industries.

Question 37.—Yes.

Question 38.—In our opinion the only guiding factor in this regard should be whether it is an industry of importance in view of national defence, security or significant in view of the employment of labour and utilization of the indigenous raw materials.

Question 39.—Yes.

(i) Existing industries; (ii) Industries important from the view point of defence and security. (iii) Key and heavy industries; (iv) Industries of economic importance utilizing indigenous raw materials and adding to the employment.

Question 40.—Yes.

Question 41.—(a) and (b) The normal method in our opinion should be imposition of protective import duty. In case of key and capital goods industries, bounties would be an appropriate form of protection.

(c) Yes. The appropriate method should be determined in each case on its merits.

Question 42.—We suggest that there should be a clear cut division of the Fiscal Law in two parts and that the anti-dumping legislation should be separated from the specific question of substantive protection. In such cases, immediate action should be taken straight-way under the orders of the Chairman of the Trade and Industrial Planning Commission so that the Industry may get necessary assistance before any harm is caused. An inquiry if necessary may be taken up later on.

Question 43.—Export duties may be levied for the purposes mentioned in (b) (i) and (ii) as well as in the cases where India has monopoly.

Question 44.—One of the main handicaps to our export trade to-day is the price factor because prices of some of our main exportable commodities are out of International parity. In our opinion, such fiscal measures should be adopted which will lower the cost of production. This can be done by

abolishing the import duties on raw materials used by the industries. Reduction in Internal transport rates from the interior to the Ports will also be helpful. Sales-tax should not be imposed on articles of exports.

In addition, measures which would popularise our products in the foreign countries by means of advertisements, exhibitions and propaganda carried out by the Trade Commissioner who may also supply the information regarding the trends of the markets, the tastes and requirements of the people, will be also helpful to the manufacturers.

Question 45.—In our opinion the method is not satisfactory. It is very difficult to obtain the correct data regarding prices from the foreign concerns. The experiences of the inter-war periods have shown us that the theory of comparative costs no longer holds the field in these matters.

As regards internal prices, the question may arise whether a specific item should be considered in the cost data. Thus the industries will have to undergo heavy expenses for the purpose of housing. The Tariff Board may not take these expenditures in calculating the price. Thus there may be unsurmountable difficulties.

We suggest that the quantum of protection should be decided by consideration of reasonable profit which would keep the marginal unit of production in work.

Question 46.—Yes.

Question 47.—In our view the alternative form of duties should be applied with due consideration of the peculiarities of the product.

Question 48.—We believe that tariff quotas as effective measure of protection, has not much practical value because by under-selling the foreign concerns may cause injujry to the indigenous industries.

Question 49.—In our opinion a definite period of protection should be laid down by the Commission in each individual case which should be re-examined at the end of such period if deemed necessary.

Question 51.—In our opinion, some of the important objectives of our fiscal policy should be :—

(1) National self-sufficiency in all possible spheres of life by protecting industries of national importance.

(2) Measures should be adopted which will increase our bargaining power in the international trade.

(3) Co-ordinated development of large scale, small-scale and cottage industries should be encouraged.

(4) Effective measures should be taken to encourage our export trade.

Question 52.—No.

Question 53.—The question does not arise.

SECTION E

Non-fiscal measures for the promotion of Trade and Industry

Question 54.—The Tariff policy may not be adequate to achieve full employment of productive and labour resources of the country, and hence supplementary measures would be necessary as an aid to tariff policy and we suggest the following for the consideration of the Commission :—

(1) *Technical education.*—The present education system needs a thorough overhaul. Technical institutions of all grades should be started all over the country.

(2) Proper and co-ordinated development of transport accompanied by a rationalised freight structure.

(3) Efficient marketing organisation in all the parts of the country.

(4) Sound and extensive banking facility in all parts of the country.

(5) Efficient system of commercial and industrial intelligence.

Question 55.—(a) and (b) As regards supply of essential industrial raw materials, plants and machinery, Government should give priority to their imports over other non-essential luxury goods. As a long term policy, production of such things in India should be actively encouraged. These items should be placed under Open General licence and no duties should be levied on them.

(c) Cheap fuel and power will help to reduce the cost of production. As such, we suggest that the Government should take immediate steps to develop hydro-electric and thermal energy grids at suitable places.

(d) There is still much scope for improvement in transport situation. We are of the opinion that the improvement and rapid development of railways and construction of roads will be of great help to the trade and industry. The freight structure of the railway system should be revised on a rationalised basis.

(e) The Government can help the Industry by establishing technical schools, colleges and Research Institutions.

(f) Supply of technical information regarding industrial matters and processes will be of great help to the industrialists as well as the workers, and same should be furnished by means of exhibitions, cinemas, lectures and such other ways.

(g) The Government has established the Industrial Finanace Corporation. It will now enable the industries whether well established or newly established to obtain financial assistance. We are of the opinion that a single institution will not be able to cater the full needs of the whole country. We suggest that similar institutions on provincial basis should also be established.

Questions 56 & 57.—A Committee of the Trade and Industrial Planning Commission constituted on the lines of the present Central Advisory Council for Industries with representatives of different industries will, we hope, serve the purpose.

Section F

Fiscal policy in relation to Commonwealth Preferences

Question 58.—We do not favour continuation of Imperial Preferences as such but would, however, prefer trade agreements on bilateral basis with any country including countries of commonwealth on a reciprocal and mutually advantageous basis.

Question 59.—In our opinion the principles are adequate.

Questions 60 *to* 63.—In view of the disturbed condition of trade during the War period and thereafter it is not possible to assess the effects of the preferences received by us in the U.K., the Dominions and the other British territories.

Question 64.—In our opinion, these preferences do not confer any bargaining strength on India.

Question 65.—In our opinion, our policy in this regard should be to have trade relations on reciprocal and mutually advantageous basis with any country of the World. The existing system of preferences between the countries mentioned above may not be continued unless they satisfy the conditions referred to in Questinon 59.

Section G

Treatment and obligations of protected and assisted industries

Question 66.—The whole object of giving protection is to enable the industry to build itself on sound economic foundation and to enable it to stand foreign competition. During the period of protection, the community has to bear certain burden, and therefore in our opinion industry does owe an obligation to improve the quality, to lower the cost of production and increase the quantity of production within a reasonable period.

(b) (i) Protected industries should maintain economic prices and endeavour to reduce the cost of production.

(ii) In our opinion, reasonable wages should be paid to labour in protected industries taking into consideration (1) capacity of the industry to pay (2) the cost of living in the locality (3) wages in similar occupations (4) productivity of labour, etc.

(iii) and (iv) The adoption of technological improvement and initiation of research are measures which will be of benefit to the industry. The industry should encourage such measures.

(v) The protected industries should train apprentices and scholars and stipendiaries, if required by the Government.

(vi) As regards control over distribution, we are of emphatic opinion that the protected industries should not be placed on a different footing as comapred with other industries. It may be added that the experience in the past of the controlled distribution is very disheartening and so we do not favour repetition of such controls.

Question 67.—(a) Yes.

(b) The formation of association or combination should be encouraged so long as such an association is formed with a view to enforce better methods of production and distribution of product, to attain large scale economies and for efficient marketing. But in case such an association indulges in restrictive practices, the Government should intervene.

Question 68.—In our opinion, no such conditions are necessary.

Question 69.—We are in general agreement with the work done by the Indian Standards Institution and are of the opinion that the Institute should work in close co-operation with the proposed Trade and Industrial Planning Commission. As regards standardization, we believe that as large number of varieties of cloth are produced to meet the demand of varying taste it will not be practicable to standardize the products of cotton textile industry.

Question 70.—It should be left to the tariff-making machinery to prescribe such machinery on an *ad hoc* basis, in each individual case.

Question 71.—In our opinion, the function should be entrusted to a special wing of the tariff making machinery.

SECTION H

Organisation, Methods and Procedure

Question 72.—The problem of planned industrialisation will be of great importance in the coming years and it will be necessary to co-ordinate the policies of the different Government Departments. It appears that the existing administrative organisations may not be adequate. It therefore appears that it will be necessary to reconstitute them.

Questions 73 *to* 76.—In our opinion, one comprehensive organisation such as the Trade and Industrial Planning Commission constituted (particulars as follows) would serve the purpose :—

The Commission may be sub-divided into suitable Branches dealing with protection, licensing of new Industries and such other problems.

The membership of the Commission may be confined to a small number, say 12. The Chairman of the Commission and one-third members may be nominated by the President of the Indian Union, while the rest of the members may be appointed by the President by and with the advice of the Parliament. The Commission should have powers to take up Advisors and Assessors for particular investigations. It may be aided by a permanent Secretary and adequate staff to maintain continuous information and statistical data for investigation work.

The Chairman of the Commission may be entrusted with the work of allocation and co-ordination of the duties among the members and he should function somewhat like a Chief Justice of a High Court.

Keeping in view the importance and magnitude of the work to be entrusted to the Commission, the terms, the status, emoluments and the period of appointment of the members of the Commission should be placed on equal footing with the Judges of the Federal Court, so that the best men in the country may be appointed on and it can be really independent of the executive.

As regards protection, the cases of minor importance may be assigned to a single member who may dispose of the same like a Court of Summary Jurisdiction. In important cases the Chairman may entrust the work to a Committee of three members.

Question 77.—We feel that a specialised organisation for tariff purposes is essential to the implementation of a scientific tariff policy.

Question 78.—(a) Yes.
(b) Yes.

For status and structure, refer answer to Question No. 76.

Question 79.—In our view, function of the Commission should not be limited to protection but should extend to other correlated measures as is done in the U.S.A. and Australia. To elucidate, the following may be additional functions of a Tariff Board :—

1. Administration of custom law as in U.S.A. and Australia.
2. Incidence and effects of revenue duties upon the industrial structure of the country.
3. Schemes of bilateral agreement should be referred to the Tariff Board for opinion.
4. It should make continuous study of data regarding trade, prices, production etc. of each protected industry.

Question 80.—In our opinion, the existing functions of the Tariff Board are to a large extent adequate. Some changes as discussed above should be made when the Trade and Industry Planning Commission has been formed.

Question 81.—Please refer to the answer to question 76.

Question 82.—In our opinion, the normal procedure should be that fitness for protection may be considered on application by the industry. The President of the Trade and Industry Planning Commission should also be given powers to initiate inquiries in deserving cases.

Question 83.—As regards small and unorganised industries, a single member of the Tariff Board may hold summary inquiry on receiving applications from a specified number of manufacturers, or may be given powers to initiate such inquiries.

Question 84.—The application for protection should be addressed to the Trade and Industries Planning Commission.

Question 85.—In our opinion, when the application for protection is addressed to the Trade and Industry Planning Commission directly and it is empowered to investigate whether there is a *prima facie* case for protection, considerable time would be saved. The decision of the Board should be communicated to the President of the Indian Union for approval. If the President disagrees, the entire question may be re-examined by another committee or the Commission whose decision should be final. If this procedure is adopted the work will be more expeditious.

Question 86.—It may be mentioned that certain information to be submitted to the Tariff Board which, in the interest of the parties concerned, should not be disclosed should be kept secret and discussed in camera.

Question 87.—Yes.

Question 88.—(a) The statute should lay down the composition, and functions of the Industrial Planning Commission as well as the general principles governing tariff and the enquiries.

(c) The provisions should be made broad enough to evade the possibility of rigidity. The Chairman may be given powers to make minor changes in the working of the Commission in consultation with the President of the Union.

PART II

Fiscal Policy in relation to Havana Charter on Trade and Employment and the General Agreements on Tariffs and Trade.

The Havana Charter on Trade and Employment which among other things aims at promotion and expansion of international trade by removing restrictions thereon was signed by 53 nations including India at Havana on March 24th 1948. The position at present is that the signatory countries may accept the Charter as a whole or reject it and no amendments can be suggested at the present stage. It would thus be observed that we have to assess the advantages and disadvantages of the Charter as a whole in deciding upon our course of action.

It may be mentioned that, India is yet an under-developed country and still being in a formative state it is not possible to judge the nature and extent of state assistance required to develop our industries. The Charter has specific provisions in these regards and it is, therefore, apprehended that the acceptance of the Charter may not permit the grant of necessary assistance to our industries—new and existing—in every case. Thus the disadvantages of the obligations under the I.T.O. are distinct while advantages from freer trade are doubtful. It may also be added that the development of industries and internal trade are more important to this country than foreign trade. In view of these facts my Committee are unable to advocate ratification of the Charter and do not feel called upon to reply to the Questions 89 to 98.

As regards G.A.T.T. the Government spokeman has stated that the guiding factors taken into consideration while granting tariff concessions were :—

(1) The concessions should not relate to products which were protected or in respect of which claims for protection were likely to be made during the next three years, and

(2) The concessions should not result in excessive loss of revenue.

In this connection, Government may not have the information regarding the possibility of an industry approaching for protection during the next three years and they may grant concessions to other countries which may have prejudicial effect on such industries. We have therefore to submit that before entering into new agreements the Government should ask for the opinion of the Chambers of Commerce regarding the possible effects of such measures.

As regards the tariff concessions already granted, it may be stated that economic and political changes of vast magnitude have taken place thereafter. The pattern of India's foreign trade is rapidly changing. As such, my committee are of opinion that the entire question of tariff concessions should be reviewed at the end of 1950 in the light of new circumstances.

Memorandum on Present Problems of the Cotton Textile Industry

A study of the commercial and economic history of India will reveal the fact that the cotton textile industry of the country has flourished and developed inspite of considerable odds and bitter competition. The last World War had a beneficial influence on the industry enabling it to recover from the shocks of the depression that preceded the war. The War period also provided some prosperity which engendered hopes for further progress but this war-time prosperity proved a temporary spell and the outlook has once again become gloomy. At present the industry is passing through a critical period and if immediate remedial measures are not adopted by the Government there is every possibility for further deterioration from which it may prove difficult to retrieve the position.

This background will enable the Commission to appraise and appreciate the difficulties encountered by the industry.

The first important problem is of the replacement and rehabilitation of the industry. The industry has considerably over-strained itself during war and the post-war period in its efforts to meet the defence requirements and to relieve the shortage of cloth in the country. This has resulted in heavy wear

and tear of the machinery and plant. Its equipment is therefore in urgent need of replacement and renewals. Besides the industry has plans for expansion and modernisation. During recent years in foreign countries, there has been considerable progress in textile technology. In order therefore that the Indian industry should mtaintain its position in the world competition, it must carry out the recent improvements in processing and manufacture and produce cloth of a quality which would stand foreign competition.

For these purposes, the requirements of the industry are two-fold :

(i) Adequate imports of essential and up to date machinery, and

(ii) Adequate reserve funds to provide for replacements.

First we shall deal with the question of funds required by the industry for the purpose. The total requirement of the industry can be estimated at about 79 crores. As against this, funds at present available to the Ahmedabad industry are about 7 crores. It will be observed that these funds are far inadequate for the needs. These funds are built from depreciation and other reserves. Under the present law and practice depreciation allowed and written off by the industry works out as about 4 per cent. of the block capital. This allowance has been recently liberalised by the Government by certain concessions such as additional allowance for triple shift working. But we doubt whether these concessions will assist the industry to accumulate necessary reserves to meet the replacement cost and charges of renewals within a stipulated period. This is because there has been a phenomenal rise in the prices of machinery and plant over the pre-war levels. The Government of India have recognised that the difficulty is real and the concessions allowed by them were among the measures to enable the industry to meet the difficulty. The following passages from the Finance Minister's Budget Speech delivered on 28th February 1949 will illustrate the point :—

> "Replacement costs are also higher, and there have been complaints that the calculation of depreciation allowance for purposes of taxation on the original cost of the asset involves great hardship. It has been suggested that industries should be allowed to revalue their existing fixed assets at the present day prices so that future depreciation allowance may be given on the basis of the revaluation. The Government of India considered this problem in all its aspects last October and came to the conclusion that while the difficulty complained of was real the solution proposed was not practicable. It would give no assistance to those who have immediately to replace their worn-out assets and there was no point in giving a concession to others who, at some future date, may not be required to pay the high prices now prevailing. It was, however, realised that some relief should be given to those who were prepared to renew and re-equip their capital assets immediately, in spite of the prevailing high costs. It was decided that for all new plant and machinery installed during the five years from the 1st April, 1948, depreciation allowance at double the ordinary rate will be allowed. It has also been decided that if by 1st April 1953 there is a drop in the general level of prices, the difference between the written down value of the assets and the corresponding value at the reduced price will be allowed as an additional depreciation allowance. For existing plant and machinery it has been decided to grant extra depreciation allowance for increased wear and tear if triple shifts are worked. I trust that these concessions will go a long way in meeting the complaints of industry in this matter."

The Indian Tariff Board in their Report on Cotton Yarn and Cloth Prices (1948) have also admitted and endorsed the view :—

> "It is true that in periods of stable or falling prices as well as in times of slow technological changes, the cost of replacement will, as a rule, be about the same as or less than the original cost of the block. In such cases the cost of replacement should be met out of the normal depreciation Fund. But in times of rising prices

replacement will involve a higher cost than the original value of the block. Likewise, during a period of rapid technological changes, replacement cost will be higher, for at such a time replacement is not merely the installing of an identical plant but involves "betterment" as well, that is the use of an improved and perhaps a bigger plant.........While the normal depreciation fund should contribute towards writing down the original cost of the block, special reserves would be necessary to meet the higher cost of replacement due to inflationary prices and betterment of the plant."

In this context it is relevant to refer to practice prevailing in England. There the British Government is contributing 20 per cent. towards capital cost of replacement of machinery of the textile industry, as a measure of financial air to stimulate the development of the industry besides allowing the depreciation on the existing plant at its replacement value.

It will be observed that it is essential for the industry to build up adequate depreciation funds and other reserves in order to meet the actual cost of replacement within the stipulated period. For this purpose, it is necessary that depreciation should be allowed to be calculated at the full existing replacement value of the assets.

Now, we shall examine the question of imports of machinery and plant required by the industry. During the whole war a strict Import Control operated and imports of heavy plant and machinery were practically nil. Even after the War, import restrictions have continued ; the result is that the import of textile machinery has been very small. Although considerable capital goods have been imported during the year 1948, textile machinery formed only a small percentage of the imports. The reasons are quite obvious. The Import Policy of Government is subject to frequent revision and changes. Imports of machinery and heavy plant require long-term planning and programme. Frequent changes upset such programme which results in restricted imports of machinery. To cite an instance, recently the import of Ring Frames has been totally stopped all of a sudden. It is difficult for the industry to arrange and adjust its programme when such sudden changes are made. It is therefore necessary that in order that the industry can import its full requirements, textile machinery and plant should be exempted from Import Control and should be allowed free import.

In this connection it will not be out of place to mention that the industry is consuming large quantities of imported chemicals and other stores. In order to ensure smooth flow and supply of such materials they should also be allowed free import.

New important problem of the industry is the increased manufacturing cost. The principal elements that constitute manufacturing cost are :

(i) Cost of raw materials and stores and

(ii) Labour cost.

Before we attempt any broad analysis of these factors, it is relevant to remark that the manufacturing cost has risen so considerably that the Indian Textile goods have lost its place in the world market. A comparison with the pre-war prices will indicate that the present prices have risen three to four times. The problem has therefore become one of great embarrassment to the industry.

The prices of all raw materials and stores consumed by the industry have considerably gone up owing to the inflationary conditions rampant during the last War and prevalent thereafter. To add to this there are substantial import duties levied by Government on imported raw materials and stores consumed by the industry. There is an import duty of -/2/- annas per lb. on raw cotton. This centre is importing 50 per cent. of its requirement of cotton from abroad. The result is that a heavy burden is imposed on the industry which adds to the manufacturing cost. Further the industry is consuming imported stores and materials worth crores of rupees. There is an import duty of 5 per cent.

and in some cases 10 per cent. on all such imported articles. Textile machinery is imported from abroad and is also subject to a similar duty and in our opinion the burden on the manufacturing cost is all the more increased considering the inflated prices of foreign machinery. It will be appreciated that all such duties on essential raw materials and stores impose a heavy burden and considerably add to the manufacturing cost.

In this connection, it may be mentioned that the Government had given an assurance when the Import Duty on cotton was first levied that it will be refundable in case of goods which are exported. This assurance has not materialised even upto this date.

It is necessary that the Import Duty on stores and raw materials should be removed so that the manufacturing cost can be brought down to reasonable levels.

There is another aspect of the problem which deserves mention. This Centre is an inland town and as a result suffers a variety of disadvantages. It has to pay heavy freight charges for imported raw materials and stores. It is therefore necessary that this centre should be allowed concessional or special freight charges, so that the manufacturing cost may go down and the centre can maintain its position *vis-a-vis* other centres. In this connection the question of cotton freight from Bombay to Ahmedabad deserves mention. Special freight rates were available for bringing foreign cotton from Bombay to Ahmedabad. The rate in January 1938 was Rs. -/8/6. As a result of an agreement arrived at with the B. B. and C. I. Railway the rate was fixed at Rs. -/9/8 for a period of three years and from 1st April 1941 it was raised at Rs. -/10/6. The latter enhancement was agreed to as an emergency war measure. The agreement provided for negotiations to revert to the rate of Rs. -/9/8. after the cessation of the War. In complete disregard of this agreement the railway has raised the rates to Rs. -/12/7 from the 1st of April 1947. In spite of protest the rates have not been revised and restored as was agreed to. It is therefore necessary that the original rate of Rs. -/9/8 should be reverted to at an early date.

Now we shall deal with the question of labour cost. During the recent years both Central and Provincial Governments have adopted and introduced schemes and measures of labour welfare. The working hours have been reduced. Besides, minimum wage has been established and wages standardised. The effect has been a general increase in wage bill. Provision has been made for holidays with pay to the industrial workers. The Workmen's state Insurance Act has imposed a further liability on the industry. The industry welcomes these measures which are calculated to improve the working conditions and living standard of the industrial labour. Obviously the cumulative effect of all such measures is that labour cost has considerably increased. It was anticipated that the welfare measures will also increase the productivity and efficiency of workers and thereby enable the industry to maintain the level of manufacturing cost. But the expectations have been belied. On the contrary, the workers have adopted go-slow tactics and loitering during working hours. Absenteeism has reached a record level. The result of all this is that the burden of labour cost has increased all the more and the manufacturing costs have stepped up. In this connection, it may be mentioned that there has been a further increase in the labour cost by the Payment of high scale of Dearness Allowance and *ad-hoc* bonuses. This centre is particularly hit in this behalf because it is paying dearness allowance at the highest rate which has no precedent or parallel elsewhere.

The remedy which, we trust, Commission will agree to reduce the manufacturing cost which has considerably increased owing to labour cost is to introduce rationalisation and other efficiency measures in the industry. Simultaneously it would be to the benefit of the workers also.

It may be pointed out in this connection that the cost of production per unit in the Textile industry is higher in this country than in others mainly due to the fact that more workers are employed here in a unit than in the countries like U.K. and U.S.A. To cite just one example, a spinner in England

minds 912 spindles and a doffer 1653 spindles as against 380 and 668 respectively here in India. It is therefore necessary that in order to adjust the cost of production and put the industry on a sounder footing rationalisation should be introduced in all departments and occupations.

At this centre, rationalisation was introduced to a small extent in the year 1935 in some sections of the industry by mutual agreement. Additional remuneration was given to the workers who minded more machines. But during the subsequent years it has not progressed at all. The main factor responsible for this was the lack of sufficient response from labour. But the problem has now become very urgent and important with the reduction in the hours of work. It is therefore necessary that the Government and the labour should co-operate with and assist the industry for further introduction of rationalisation in the industry and other efficiency measures in all occupations.

The above analysis will give a fair idea of how the manufacturing cost has risen and what remedies and steps are necessary to reduce the same.

Before we finish up the question of cost we would like to refer to one or two points. The manufacture prices of cotton textile is substantially high. In spite of this additional burdens have been imposed by the Central and Provincial Governments. The Central Government have recently revived the Excise Duty on the cotton textiles. It is levied at varying rates. The history of the fight of the industry against this during the British Rule is very well known. Its revival has no justification whatsoever. Government's argument "that it is necessary to replace the loss caused by the abolition of the salt Duty by developing such equally stable sources of revenue is no ground and the choice of cloth for the purpose is not the least happy. Besides, it is a burden on the saleable value of cloth and will considerably hamper progress particularly, in that sector of the industry which has specialised in the production of fine and superfine cloth which has been subjected to a heavy duty of 25 per cent.

Further there is imposition of sales tax by Provincial Government which has also added to the saleable value of cloth.

Another problem is the promotion of export trade of cotton textiles. During the last War owing to heavy requirements of defence services, export trade of this commodity had practically come to a stand-still. The continuance of export restrictions even after the war have severely affected the export trade of this commodity. Cotton piece-goods formed one of the most important commodities of the countries' export trade during the pre-war days. The present position is that there has been serious decline in the export trade. The main factor responsible for this is the disparity between the prices of home products and the foreign goods. It is therefore imperative that the manufacturing cost should be reduced and the remedies and measure suggested for this purpose should be adopted by the Government. If the trade is to be promoted, it may be suggested that there should be no restrictions as such on export or otherwise.

We would conclude now with a few observations on the problem of taxation which is common for all industries. The burden of taxation is really very heavy and has definitely impeded industrial development. Capital formation and private enterprise are the essential requisities for industrial progress. The position will be therefore that so long as the burden of taxation on industries is not reduced, necessary capital will not be forthcoming. Besides, this burden has restricted the saving capacity of the existing industries, with a result that they have not been able to build up sufficient reserves.

In this context it may be mentioned that the question of a systematic revision of the entire taxation structure is long over-due and therefore it should be taken up at an early date. This will enable the Government to afford the such-needed relief to the industry.

These are some of the important problems of the textile industry in general and this centre in particular.

Memorandum on the effects of partition on Cotton Textile Industry with particular reference to (a) Availability of Raw Materials, (b) Production and (c) Market for the finished products.

It may be conceded that although the two dominions are constitutionally and politically divided and independent it will take some time before they can attain economic independence. It is in the mutual interest of both the countries if a harmonious economic policy is followed and healthy trade is carried on. India is favourably situated in industrial development while Pakistan's economy is predominantly agricultural. India can cater Pakistan's needs of industrial products and manufactured goods while Pakistan can supply its surplus of food and non-food crops. In this light we can examine and analyse the effects of partition on the cotton textile industry of India under the following heads :—

(a) *Availability of Raw materials* :

During the pre-partition days, the Pakistan areas produced roughly 1.17 million bales as against 2.27 produced within the Indian Union including Indian States. The output of Pakistan area thus constituted one third of the All-India total. From the consumption side, the All-India offtake of the Indian Mill Industry may be taken at an average of 4 million bales per year. On this basis, the raw cotton production of the Indian Dominion falls short of the requirements of the domestic mill industry by 1.74 million bales. This is a fairly large gap and it would appear essential at first sight to substantially increase the cotton acreage as a provision against the possible difficulties in securing our requirements of raw cotton from Pakistan. But the alternative of increased domestic production to the need for importing Pakistan or other foreign cotton is not practicable. The bulk of cotton grown in Pakistan is long staple type of the American variety and the production of similar medium or long staple variety cannot be stepped up over a short term by the Indian Dominion, the bulk of cotton acreage of which is devoted to short staple. Even if this reversion is permitted by the food situation the additional growth will be of the short staple cotton more of which is not wanted by the mill industry. The situation, therefore, is that for sometime to come Indian Dominion will have to import about 1 million bales of Americans from Pakistan. It is of course possible that the Indian Dominion may take increased imports from Egypt and East Africa and can reduce her dependence on Pakistan provided Foreign Exchange as well as the high prices of foreign cottons are not allowed to restrict the scope for such diversion.

(b) *Production* :

The deficiency in the supply of long staple variety cotton will have its effect on cloth production. Medium and long staple types are quite essential for manufacture of medium count cloth. Unless, therefore, necessary supply is ensured, the production of medium count cloth will be affected and the mills manufacturing this type will have to divert their production to finer counts.

(c) *Market for finished products* :

Out of 410 cotton mills in the country, 15 are in Pakistan and the rest are in Indian Union. The production of cotton textiles in Pakistan is about 400 million yards; as against this their cloth requirements may be estimated at about 1,000 million yards, calculating on the basis of 16 yards *per capita* consumption. This gap between the supply and the demand for cotton textiles for Pakistan is very large. Supposing India has an exportable surplus, it has a flourishing market for its textile products. In this context, it may be mentioned that before partition Punjab and Bengal consumed the major portion of the total offtake of cloth by the present Pakistan areas. These centres were good markets for fine and fancy goods. Ahmedabad specialises in the production of such fancy cloth and it used to supply about 250 million yards on an average per year to these centres.

Federation of Gujrat Mills and Industries, Baroda

Question 1.—Yes; the economic background in the country as well as in the whole world has fundamentally changed since 1922. The basic changes can be summarised as follows :—

(i) With the loss of China and big parts of other South East Asiatic Countries as well as of the Central European Countries, the free trade area of the world has very materially shrunk in size.

(ii) The rise of the United States of America as the World's largest single producer of manufactured commodities and primary products amounting to over 60 per cent. of the world's supplies has altered the entire balance of World's competitive forces in the world market. The U.S.A. has alone emerged as perhaps the world's single creditor country.

(iii) The entire mechanical equipment of the manufacturing industry and transport system in India has worn out and has not been renewed or replaced during the last decade and more; this threatens a complete break-down of our economy if a rapid replacement of old plants is not undertaken. In the event of war, such a breakdown will spell a disaster. It would be very much more so, particularly because our existing capacity is not enough for us from the viewpoint of natural selfsufficiency. The basic changes noted above necessitate a fundamentally new approach to our problem. Any regeneration and enlargement of our industrial structure cannot be based on the expectation of having expanding foreign markets. We must have a plan basing our future industrial expansion primarily on the National Market. This market has not been properly tapped or nursed and developed. Fruitful approach in this case would be the possibility of establishing a balance between industry and agriculture and between urban and rural areas.

(iv) The partition of India has also adversely affected the economic conditions of the Country.

Question 2.—Our agricultural situation has also undergone a fundamental change in the following particulars :—

(i) *Production.*—The Committee appointed by the Government of India for considering the technological possibilities of Indian Agriculture shows that the per acre production of food grains is steadily on the decline during the last 30 years. Added to this is the new fact that surplus grain producing areas in the West have been lost to Pakistan. Further, there is a pretty permanent factor adversely affecting agricultural production. The factor is the continued sub-division and fragmentation of the agricultural holdings. This causes wide stretches of land to go out of cultivation.

(ii) *Consumption.*- Consumption of food-grains in India has altered in composition only to the extent to which procurement, imports and transport difficulties have affected the assortment of foodstuffs included in the *per capita* rations in different provinces. The main difficulty in this case has been the necessity of meeting shortages in the total of grain supply and in particular types of grains normally required by any given section of population, the overall shortage problem has been rendered extremely acute owing firstly to loss of surplus areas to Pakistan, secondly to the growth of population and thirdly to the reduction in the normal supplies from Burma to very slender proportions. The programme of imports from the North and South American Countries and from Australia has caused wheat and maize to be substituted for rice and millets. Altogether the whole balance of various kinds of grains in the total supply has altered necessitating a change in the quantity and composition of diet of the people of this Country. This is quite aside from the question of calorific value of the diet in various parts of India. We have no adequate information about this problem.

International Trade.—The quantum, value, composition and direction of our foreign trade in agricultural commodities has changed during the last decade. However, the last 10 years have been years of control, restrictions,

licences, permits, prohibitions, etc. It would be difficult to draw reliable conclusions from the existing facts of foreign trade since trade has not been free but has been regulated according to the emergency of the War and the Post-War years.

Question No. 3.—Our industries depend upon our agriculture for supplies of raw materials and for the market of their products. To the extent of which the general productivity of agriculture, rises, the prices of raw materials required for industries will go down and thus help in the reduction of the cost of production. Secondly, prosperous agriculture will provide an expanding market for our industrial products and reduce the necessity of dependence of our industries on the export or the necessity of exporting it. National market is always more dependable and secured and will therefore base our industrial progress on steady foundations and at least partially protect us from the wide fluctuations in the foreign trade caused by wars, currency, de-valuations, bi-lateral trade agreements, and trade cycles.

Question No. 4.—A rapid mechanisation of our agriculture and increased mechanisation of mining will provide a substantial market for all sorts of agricultural and mining machinery and building materials, electricity and consequently electrical goods of all kinds and transport equipment. The provisions of modern market and roads will provide additional demand for various kinds of agricultural goods.

Question No. 5.—There has been some expansion of protected industries in the inter War period but not such expansion to appreciably change the National Income of India. Further the expansion has not been such as to make India self-sufficient. We are dependent on foreign countries for the supply of machinery and other capital goods. Without these, establishment of new industries will be impossible. The progress during the world War II has been confied to the consumers' goods only. The establishment of capital goods industries has not been possible. Industrial progress has been artificial and temporary in character and not real and permanent. India has begun to modernise her industries, but she is yet far from-being industrialised.

Question No. 6.—The following types of Industries are not provided in our industrial structure. (a) (i) Machine tool industry (ii) Locomotive steamship engines and aero-engines manufacture (iii) some basic heavy chemicals (iv) electrical equipment manufacture (v) manufacture of scientific instruments etc.

(b) It would be difficult to be precise about our deficiency in respect of volume of production. The industries noted above are virtually absent. Their production has to begin from the search and has to reach a level where it satisfies all national needs. Regarding consumers' goods industries one can roughly say that our cotton textiles, cement, railway track etc. should be substantially increased.

(c) No Industry would run unless the cost structure is met by market prices; but if the market is artificially blostered up by Tariffs, high over-head and operative costs may be sustained artificially. These appear to have been the case in India. Both have to fall and this is possible only with great technological improvement and introduction of scientific management.

(d) We consider that the quality of management has not been much open to criticism though slight improvement is certainly possible, if it is better equipped with technical knowledge and more up-to-date in costing.

(e) Supply of capital depends on reputations for sound and honest managements. Small concerns are often known to have collapsed for want of capital.

In this respect, old experience of collapse of concerns acts as a deterrent to entry of new capital. Attempts have to be made to reduce the mortality of existing concerns and to enable them to pay steady if not high dividends. This can be done by the Government sponsored and managed industrial finance corporations.

(f) Availability of raw materials, fuel powers etc.:—After the Partition, raw materials, like cotton, jute, hides and skins etc. are not easily available and India have to import them from Pakistan and other foreign countries which add to the cost of production and adversely affect the large Industry of cotton and jute. These and other raw materials for the manufacture of finished products should be made available in India at reasonable prices to the industry. Encouragement should be given to indigenous products of such raw materials. Fuel, *i.e.* coal, hard-coke, diesel oil etc. should be made available to the Industries at very reasonable prices and in adequate quantities.

Power.—It should be generated from different rivers at an early date to expand industries and agricultural products.

(g) Availability of high grade technical ability :—India is short of highly trained technicians for different industries. The Government should plan out for training of thorough technicians and it should import foreign technicians to give training to our people and send our selected candidates to foreign countries for necessary training in colleges and industrial concerns.

(h) Supply of skilled and un-skilled labour :—We have got abundant unskilled labour, but skilled labour is not sufficiently available. So schemes for necessary training should be worked out and put into practice *e.g.,* vocational training, apprentice scheme etc.

(i) Efficiency of Labour.—Efficiency of Labour is going down day by day. There should be linking of wages and dearness allowance with efficiency *i.e.,* work put up. We would suggest to have work-load for each category of workers ; rationalisation should also be introduced in all industries so that our industries can compete with foreign industries by lowering their cost of production.

Question No. 7 (1).—Regarding small scale and cottage industries, certain general observations can be made. It is now generally known that large scale mechanised industry is able successfully to compete with small and cottage industry except in extremely delicate operations. Cottage industries have an extremely limited scope in fancy goods, knitting goods, embroidery work, wood, stone and ivory work. Where agriculture cannot be a whole-year operation, they can come in. It is true that agriculture in many parts of India is a seasonal occupation, but with the provision of perennial irrigation it is likely to be whole-time. Only where it is not possible, cottage industry can come. Small scale mechanised industries like ginning and pressing of cotton, rice-milling, oil-pressing, leather works, and some processing industries are seasonal industries and if spread properly in relevant agricultural areas will feed in the idle time of cultivators by providing occupation to them in their off season.

Question No. 7 (2).—There is no hard or fast rule about the relation between small scale, cottage and large scale industries. As cottage industries are confined to skilled hand work, they may stand as things apart and their field will be solely determined by the community's demand for art work. But small scale industries of the type mentioned above being complementary to large scale industries, there should be some quantitative relation in them. Once the tempo of the large scale industrial development is settled, the plan of small scale industries would be *ipso facto* determined.

Question No. 8.—The answer to question 7 covers this question also.

Question 9 to 13.—We feel that in looking for rapid industrial development of industries for India, the question of small scale or cottage industries need not receive considerations on the level of Fiscal policy. Questions concerning cottage industry are often based on sentimental considerations. To the extent to which this is the case, we have no opinion to give, though we should very readily subscribe to the view that in entering in a trade agreement whatever is possible for giving encouragement to the cottage industry particularly concerned with artistic ware should and ought to be done and a general directive to this effect may be given to our trade delegations.

Question No. 14.—The Government had no genuine sympathy for rapid industrialisation of the country. Assistance given under it to industries was grudgingly given. There was delay in the procedure of the tariff enquiry machinery. The problem of industrialisation was more political rather than economic.

Question No. 15.—As noted above, while the weapon of tariff would be used by the Government to help industries, the manipulation of exchange rates was used to withdraw their help. This affected all industries.

Question No. 16.—We agree that normally protection should be given to an industry if conditions laid down by the Fiscal Commission are satisfied. But in regard to industries required for national defence this condition should not apply. This will include armaments and munitions industries and industries concerned with the basic requirements of the population.

Question No. 17.—We consider that the supplementary measure suggested by the Commission are not adequate. Government will have to take a more positive role in making available to the industry machinery and technical skill and adopt sort of scheme of planning and priorities.

Question No. 18.—Yes, the qualifications to the policy of discriminating protection as laid down by the Legislative Assembly in 1923 did affect the policy adversely. But the diverse factor which affected industrial development in India make it difficult for us to attribute particular results to particular causes only, for example, from 1930 to 1939, India was suffering from very serious depression.

Question No. 19.—The changes set out in para. 4 regarding Government's reorientation of the policy are in our opinion, sound.

Question No. 20.—So far as work of implementing the quality in 1946 is concerned, we feel that it is satisfactory but the general control system established by the Government works in such a dilatory manner that the benefit of protection is largely lost, quotas of coal, supply of wagons, and many such things are not being attended to with efficiency and promptness. Hence the total effect is stagnation and eventually loss.

Questions 21 *to* 30.—We think it is not necessary to give here all qualitative and quantitative changes that had taken place in the industries noted in question 22 for the particular sort of policy pursued by the Government, because recently the Tariff Board have fully enquired about cotton textiles, iron and steel, sugar industries etc., from which all such details can be had. However, we have already said that the protection given by the Government has been halting and grudging and was governed by the political consideration more than by the best, economic consideration concerning the well-being of the country. The actual development has been influenced by whatever protection was available. Exchange rates, manipulations, railway alignment, depression, competitive exchange, depreciation, tariff policy of the other countries and the World War II. The only industry which seems to have been benefited by revenue tariff was the Sugar Industry. But even here the internal excise duty has in recent years equalised the competition of the internal and external supplies.

As a broad conclusion, it can be said that protection has not by itself nor have other factors caused any change for the better in respect of mechanization, technological improvements, optimum use of raw materials, supply of technical personnel or skilled and semi-skilled workers. It can not be said that the protection policy of the Government has significantly affected the volume, direction and composition of our foreign trade except in respect of importing cotton textiles, iron and Steel and Sugar. Our import and export policy is such as to affect the economy of the country adversely, and therefore it requires thorough investigation and modification.

Question 31 *to* 33.—It is our opinion that war time legislation and administrative controls should not form a part of the permanent policy regarding the development of foreign trade and industries even though during the war they might have assisted in some measure that development. War itself with its

consequent rise in prices was a factor in that development. We have already said that something more than mere fiscal measures would be required if sound industrial development is to take place. Further, too much emphasis should not be laid on the development of foreign trade for reasons given in answers to the first three questions.

Control should be as simplified as possible. It should not be for more than necessary period. Import and export policy should be chalked out considering all the factors in consultation with Commerce, Trade, Industries and Consumers. Before entering into bilateral or multilateral agreements for imports and exports, industry and commerce should be consulted and taken into confidence.

The Government of India formerly restricted our trade, then issued Open General Licences for imports which resulted in heavy imports of consumers' goods and unwanted industrial products which drained away foreign exchange and adversely affected our industries like cotton textiles, healds and reeds, bobbins and such other industries.

Questions 35 *to* 40.—We agree with the view that the fiscal policy best suited to India is protection. But any protection given should be followed by quantitative and qualitative improvement in the industry protected. This would require the setting up of planned targets of production and costs, top priorities should be given to those industries which would eventually produce machine tools, engines, Armaments, Scientific instruments and Electrical Goods etc. Protection need not of course be confined to infant industries but may be extended to industries proposed to be started provided plan for its establishment is absolutely certain. Further such protection may commence only when the new industry puts its products in the market.

Questions 41 *to* 53.—All methods of protection have ultimately the objective of making the industry prosperous and developing it quantitatively. All methods enumerated in Question No. 41 have been tried but it would be difficult to say which of them is most effective nor would it be possible to say which of them can be normal method. We agree with Part C of Question 41 with the provision that the main considerations to the achievement of quantitative and qualitative improvement in the shortest possible time. Safeguarding and anti-dumping measures are temporary devices of protection of particular periods during certain critical periods, much would depend on the nature of crisis.

As a rule, export duty device should not be lightly used unless the commodities are a firm monopoly of the country or the consumer is suffering from acute shortage temporarily; otherwise the harm to export trade and consequently to the industry would be very serious.

Further, an industry must primarily cater for the home market. Too much dependence on foreign markets would be harmful. In cases where the conditions of an industry are such as would enable it easily to procure an export surplus over and above national requirements, the case will have to be considered on its own merits and bilateral trade agreements suited to the disposal of the surplus may have to be resorted to. We agree with the method of the present Tariff Board in determining the quantum of protection and would add that a sliding scale of duties may be adopted to provide against changes in landing prices. In any case the difference between the landing cost of foreign product and the fair selling price of its national competitor must govern the method of protection; but the interests of the consumers require internal prices low. A bounty covering the loss on the national products may be provided out of the receipts from the protective duty. A bounty keeps the Government as well as the industry constantly aware of their responsibility regarding the progress of the industry. Import duty and bounty may therefore be advantageously combined in all cases, whatever duty is levied must be *ad valorem*. We would recommend that protection would be fully assured for some minimum but fairly long period without which the industry's future is not assured. Revenue duties easily borne by the consumer but acting at the

same time as protective duties should be used wherever possible. Where the interests of the poor consumers are involved duties with bounties are preferable. A re-classification of revenue tariffs may be made if it serves the interests of particular industries without loss of revenue to the Government. Long term fiscal monopoly must have for its objective, the development of industries with a view to increase industrial employment at least to 50 per cent. of the total employable population. Any trade agreements entered into ought not to run counter to this objective.

A permanent quasi Government Organisation composed of Government Officials and trading and manufacturing interests should be set up to examine and advise on all matters of trade agreements with a view to protect the plan of industrial development.

Questions 54 *to* 57.—Non-fiscal measures suitable for adoption would naturally be concerned with the Items 'a' to 'g' enumerated in question No. 55 as well as with other matters. We feel that matters 'a', 'c', 'd' are matters regarding which a National Government can speedily take positive steps in relieving the difficulty of industries. It would not be necessary to set up any special machinery for these purposes. They can be dealt with departmentally. Regarding Item 9, an institution like Industrial Finance Corporation would be of immense use. In questions relating to 'b', 'c', 'f', however, assistance from outside countries would be necessary in the initial stages. Plants and technical personnel should be made available even if their cost is very high. But the primary objective should be to make equipment and technical skill available within the country itself. The provision of first class machine tool industry and a net work of Government subsidised technical schools would answer the purposes of industrial requirements, but that would be in the end. In the beginning, Government can alone secure both from abroad.

At present transport particularly rail transport is not quite adequate to meet the full requirements of the trade and industries and therefore other alternative transport system like road is being resorted to by the industries for movement of raw materials and finished products but terminal tax/octroi duty and expensive road transport add considerably to the cost. So necessary relief should be given by asking the municipalities and local bodies etc. to desist from levying such duties especially while the goods are in transit and to see that the road transport is cheap and the rates of terminal tax/octroi duty should be nominal in proportion to the value of the materials.

Excise duty on articles like cloth, sugar, spirits and spirituous preparations etc. should be abolished or very considerably reduced. It should not form the basis of revenue. We believe that it was formerly imposed for checking its misuse, but at present it has gone out of proportion and should be reduced, so that the industries may get a spurt in development and stand in foreign competition and cost of living index number may also go down.

Licence duties/fees on factories, spirits etc. also play a very important part in the development of industries. The Government should see that such licence fees/duties are not burdensome on the industries.

In all these matters, a continuous cooperation between the Government and the representative of Industry and Trade is essential. A permanent body consisting of the representatives of both should be, therefore, set up for the purpose.

Questions 58 *to* 65.—Any scheme of Imperial or Commonwealth preference is necessarily coloured by political considerations. It can not by any means be said that so-called Commonwealth constitutes anything like a natural economic unit. Consideration regarding preferences extended by member-nations of Commonwealth to each other would be naturally determined by political factors. Speaking purely on economic grounds, we are disposed to opine that the general principle of buying cheapest and selling dearest should apply to all trading agreements with suitable modifications necessitated by the very nature of mutual bargaining. In all these Commonwealth considerations new have no place. True to our policy of political neutrality in the conflict

between world power blocks, we should bargain with any nation ready to trade with us on the basis of considerations of maximum advantage. In entering into fresh commitments, the general commercial principle stated above should be borne in mind.

Questions 66 *to* 71.—We agree that all industries protected as well as unprotected have an obligation to the community, prices should be fair, wages should be adequate in relation to the capacity of the industries to pay, conditions of labour should be satisfactory, technological improvement should be rapid and up-to-date, and research in the technique of production and distribution must be promoted and liberally helped. Apprentices should be trained on a planned basis. These are the obligations socially imposed on all industries especially protected industries. Protected industries should try to raise output, reduce cost and lower prices. We should suggest that protected industries must have adequate capital resources so that steps for expansion are not imposed by financial considerations.

Special arrangements are required for controlling the quality of products of the protected as well as not protected industries which can be done by the Indian Standards Institution.

Question No. 71 (c).—No.

Questions 72 *to* 88.—We are in favour of setting up a permanent and comprehensive organisation partaking of the nature of All-India Trade and Industrial Planning Commission sub-divided into suitable branches dealing with different aspects of industrial and trade developments. A specialised organisation for tariff purposes would be an important section of the planning commission. Details of the organisations of the Planning Commission can be filled in after good deal of experience. But something of the character of the Ministry of Economic Affairs should be established under which Planning Commission would work. The Planning Commission would deal with all long term problems. Short term and day to day problems would be dealt with by other sections of the Ministry but there should be continuous co-operation between the two. The Planning Commission would have to be divided into various departments concerned with Industry, Agriculture, Commerce, Transport and Finance. The Industry's section will have to be further sub-divided into different sections dealing with separate aspects of Planning. Tariff questions would have to be entrusted to one of the sections. These are only tentative suggestions.

The Southern India Mill Owners' Association.

PART I.

SECTION A(I)

Question 1.—We consider that the economic background of the country has fundamentally altered since the report of the last Fiscal Commission in 1922.

1. In the first place India has become an Independent Nation capable of formulating its own policies and planning its own industrialisation.

2. The partition of the country has resulted in great deficit of certain agricultural products and industrial raw materials such as jute and cotton.

3. Thirdly the economic barriers have greatly upset the equilibrium of the country resulting in certain inflation of the forces tending to push prices and wages.

Question 2.—We feel that the production of agricultural commodities have not kept pace with the increased consumption in India. This has been further aggravated by the fact that, as a result of partition, many agricultural products in which India was a surplus country has been converted into a deficit area. The result of this has been our dependence on other countries for raw materials such as jute and cotton for two of our largest industries.

Questions 3 & 4.—As regards Agriculture, we feel that it is urgently necessary to make ourselves self-sufficient not only with regard to our requirements of food but also with regard to those raw materials which are essential for the running of our basic industries such as cotton and Jute. Self-sufficiency in these will help up save foreign exchange particularly dollars which can be better utilised for the import of capital goods. Regarding mining we feel that development of Hydro Electro Schemes are far more important than development of mining. For instance, the great industrial development made in some areas of Southern India can be directly attributed to the availability of Power from Pykara and Mettur Hydro Electric Schemes.

Question 5.—Considering the areas, population and needs of India as a whole, our Industrial development has not been appreciable except in cases such as Cotton and Sugar. We can say that we are almost self-sufficient with regard to our clothing and we are tending to become an exporting country in that respect. But with regard to the basic industries such as Machine Tools, Heavy Chemical and so on, we are of opinion that we have not made any considerable progress.

Question 6.—All Basic Industries such as Iron & Steel, Heavy Chemicals, Machine Tools, Agricultural Machinery etc. Secondly Defence Industries and thirdly Consumer Goods Industries.

(b) *Volume of production*;

The volume of production falls far short of our requirements in almost all the Industries today. All efforts should be made to further production by greater incentives and increase of Technical Education.

(c) & (d) *Overhead and operative costs; Quality of management;*

This will vary with the Industry concerned but we are of the view that the development of Technical Education would help to bring down manufacturing costs under these heads.

(e) *Supply of Capital;*

Capital has been traditionally shy in India. This has been further frightened away by the high level of taxation by the Government and threat of nature but in an Industrially backward country, all encouragement should be given for capital to flow into industry and earn reasonable profits, but the high level of taxation as well as the limitation of Dividends Ordinance have had an adverse result in the formation of Capital. We are sure that concessions in these respects will greatly facilitate to the flow of Capital in the development of the existing industries as well as the starting of new ones.

(f) *Availability of raw material, fuel and power;*

Regarding raw materials India is now deficit in Cotton and Jute for her industries. It should be the duty of the Government to make raw material available to all Industries and while doing so they should see that the ultimate good of the consumer is in no way jeopardised in their eagerness to protect the Agriculturist. As a specific instance we should like to mention the working of the Cotton Control Order in India today. While Cotton is controlled Kappas (Seed Cotton) is not controlled with the result that Mills are unable to get cotton at controlled rates. They are forced to pay very much higher rates for the purchase of Kappas while yarn and Cloth are rigorously controlled, such anomalies would tend to discourage production and retard the growth of Industries. With regard to foreign Cotton the duty imposed by the Government of Rs. 100 per candy; puts the Indian manufacturer at a disadvantage with the Lancashire or Japanese Manufacturers and if we are to compete with them on equal terms then this duty should be removed. As regards fuel and Power there is a tendency on the part of the Governments to nationalise these source of Power. The aim of such nationalisation should be to provide Power at the cheapest possible rates to the development of Industries and these should not be made into revenue making organisations which they can tap in at will to make up their revenue deficits. Any such move will discourage the growth of industries in India.

There is also a tendency in India to produce on the part of the Agriculturist un-controlled commodities in preference to the controlled commodities because of the higher prices that they are able to get in spite of the fact that the land may not be suitable to that particular commodity. The Government should fix the prices of commodities in such way that the Agriculturist will be inclined to grow essential crops like Cotton and Food etc., rather unnecessary item.

(g) *Availability of raw material, fuel and power;*

All possible facilities should be provided for our technicians to be trained wherever possible and simultaneously Technical and Research Institutes should be started within the country for the furtherance of technical knowledge and help of foreign Technicians should be sought in the initial stages if necessary.

(h) *Supply of skilled and unskilled labour;*

It is a well known fact that production per manhour in India is lower than in any other Industrial country and it is most essential for industries that the scale and ability of our labour forces should be increased greatly if we are to stand on a par with other industrial nations. In order to achieving this, Training Schools should be started wherever possible with the cooperation and support of the various industries on the one side and technical institutions on the other. Further, we feel that so long as labour is not prepared to cooperate with the schemes of rationalisation in order to increase production per manhour and ultimately the standard of living for labour itself and reducing the cost of production, any number of efficiency schemes on the part of the Government or the Industry is not likely to be fruitful.

(i) *Efficiency of labour.*

Answer to the above will help us to increase the Labour forces.

Question 7.—(a) There has been attempt on the part of the Provincial Governments to foster certain uneconomical Cottage Industries such as Khadi Scheme of the Madras Government at the expense of the Public Tax-payer. While we are of the view that Cottage Industries of a specialised nature such as Ivory Crafting, Embroidery Craft, Weaving and others for which India has been traditionally famous, should continue and should be encouraged and we are definitely against the fostering of uneconomical and inefficient forms of manufacture which could be better done by machinery.

(b) (1)—1. To supplement Agriculture, the Cottage Industries that are started should be in some way allied to the main vocation and must supplement it. For example, Beekeeping, Animal Husbandry, Dairy Farming should be given preference to hand-spinning or hand-weaving.

2. The large scale industries and small scale industries should supplement each other and it should be the policy of the Government to see that there is no clash of interest between these two.

SECTION A (II)

Questions 8 *to* 13.—We are of the opinion that small scale and Cottage Industries have an important role to play in the economic development of our country but they should be confined to certain specialised trades and handicrafts where individual skill and design and artistry, are far more important than mass production. Since India has been traditionally famous in these respects, they should be developed from the point of view of not only internal consumption but exports. The Government should give all possible help to the development of such industries and we are of the view that these can best be developed on the basis of rural cooperative societies.

If it is the intention of the Government to give encouragement to Cottage Industries, then they should give facilities for conversion of present Handlooms to Power Looms, wherever possible through Industrial Cooperatives.

SECTION B.

Question 14.—We are of the view that the policy recommended by the Fiscal Commission, was not fully implemented between the years 1923-39 ; for example, we would like to cite the Indo-Japanese Convention which prevented tariff being imposed on abnormal low price Japanese goods being imported into India. We would like to stress the view that for future guidance no convention should be made by the Government which goes against the spirit of the policy that has been laid down.

Question 15.—Refer above.

Question 16.—We are of the view that the specific conditions laid down by the Commission can be satisfied by very few industries with the result that very few of them could claim protection in the context of today and in view of the need for rapid Industrialisation of India, we are of the view that the Tariff Policy pursued by the Government should be such as to give the utmost encouragement to local industries. In order to achieve this, we would suggest that the only conditions for protection should be as to whether such an industry could develop in India in the National interest or not.

Question 17.—We consider that the supplementary measures for protection and assistance of Industries were well conceived. But we would like to point out that indiscriminate imposition of Excise Duty and Sales tax by the Provincial and Central Governments are serious burdens on the Industries.

Question 18.—The policy of the Government in the past has been to use tariffs more for collection of revenue than for the protection of indegenous industries. We are of the view that tariffs should be used to protect and to develop national industries and this will ultimately yield greater revenue to the Government than by the Short-sighted policy for using tariffs for revenue only.

Question 19.—The deviation from the discriminating protection are an impprovement on the original policy as laid down by the Fiscal Commission particularly clause 2 (b) which says that protection should be given to Industry if it was found to be in the national interest.

Question 20.—It is being implemented.

SECTION C.

Questions 21 *to* 26.—*Facts and figures have been sent by the individual units of our Association to the Fiscal Commission.*

Question 27.—As far as the Textile Industry in the South is concerned, a beginning has been made with the Cotton Textile Fund. It is proposed to establish a Research Institute in Coimbatore to which the Industry and the Government will both make the contributions and it is hoped that this Institute will start functioning in the near future.

Question 28.—Except in the case of Japanese low priced articles when they were being dumped in India at below cost the imposition of revenue tariffs in the past have not had any appreciable effect on the growth and development of our Industries or on the course of our export and import trade.

Questions 29 *to* 32.—During the period 1939-45 the volume as well as value of our exports of either wholly or partly manufactured goods increased as a result of the war, correspondingly our export of raw materials declined during the same period. The result of this has been the accumulation of Sterling Balances in favour of India.

32. (b) At the end of the War, because of lack of many types of imported goods which India could not procure during the war years, the Government of India allowed the import of many items of consumer goods as well as machinery to be imported more or less freely during this period. The net result has been that India today is partly an exporter of manufactured goods and an importer of certain raw materials.

As far as the Textile Industry is concerned owing to the controls exercised by the Government during the War years and prohibition of exports until recently, we have lost valuable markets in Ceylon, Burma and other places. It has been a welcome feature to note the Government have now revised their policy to a certain extent and are encouraging exports.

Question 33.—Since the War, local Governments have used the powers given them under the Industrial Disputes Act drastically to increase labour costs and have also taken powers under various Provincial Acts to fix maximum and minimum prices for raw materials. In the case of sugarcane in particular the fixation of minimum cane prices under the Provincial Cane Acts can be used by Provincial Governments to give growers an undue benefits and thus nullify the effects of protection.

Question 34.—It would be difficult to assess the value of the relative importance of fiscal and non-fiscal measures regarding the development of Industries. But what is essential is that there should be co-ordination between these two policies in order to industrialise the country rapidly. But what we notice today is not only the lack of coordination between the measures adopted in these two respects but what is done by the Centre is offset by the Provincial Governments. A glaring example of this discrepancy is the multiple incidence of salestax even on commodities for which the controlled prices have been fixed by the Centre.

Question 35.—It would be difficult to assess the extent to which an appropriate tariff policy can further our foreign trade and assessed in the development to Industries. But we can say that an appropriate tariff policy coupled with other non-fiscal measures can greatly assist in the development of Industries.

Question 36.—The objectives of the tariff policy during the period should be as follows :—

1. To increase production both Agricultural and Industrial by all possible means.

2. To protect and develop those industries that have come into existence and supplied our essential needs during the difficult period of war.

3. To help those Industries which can advantageously export so as to be able to earn Foreign Exchange.

Question 37.—Yes.

Question 38.—The only principle that should be followed for regulating the grant of protection is whether the development of a particular industry is in the National Interest.

Question 39.—Bearing the above mentioned principle in mind each industry or class of industry should be treated separately on its merits.

Question 40.—The criterion of any protection should be as we have mentioned before, whether the Industry should be established in National interest.

Question 41.—It should be the duty of the Tariff Board to examine industry individually and to decide on the most appropriate form of protection. But we are against any system of pool prices as they are unsuitable to the conditions of free market and competition. The condition to be determined in selecting the most appropriate method of protection should be the good of the consumer and the development of the Industry on sound lines.

Question 42.—Where the situation calls for safeguarding against dumping either a quantitative restriction or a quota system should be resorted to.

Question 43.—(a) We do not favour the imposition of export duties as they are likely to restrict our export trade and ultimately reduce production.

(b) As regards export of manufactured goods, we would like to point out that since Devaluation, Indian Textile are the cheapest in the World Market and the Government should take this advantage and allow Mills to export and also to charge prices comparable to those of World level without any restriction. At present there is restriction on Mills inasmuch as they can only sell their goods at 8 per cent. over the ceiling rates fixed by the Government through a dealer or 10 per cent. directly to the foreign country. This restriction should be removed so as to enable the Mills to exploit the foreign markets and to earn valuable Foreign Exchange. This is particularly so when we have to pay very high prices for our raw materials from outside which are uncontrolled.

(i) Yes.

(ii) Yes. We would suggest that quantitative restrictions should be imposed so as to ensure that raw materials which are in short supply in India itself are not exported in any way.

Question 44.—If is it found to be in the national interest to encourage exports in a particular Industry the Government should give all possible stimulus to such an undertaking such as concessions in freight, a relief in taxation on profits earned abroad and as a last resort, subsidies. They should also make available stores, raw material etc., at the lowest possible cost.

Question 45.—We are in general agreement of the present method of comparing fair selling prices of the domestic product with the landed product but in arriving at the fair selling price of the domestic product due allowance should be made for the freight differences within India itself and also to the fact that some units through no fault of their own may not be as efficient as others within India itself.

Questions 46 *and* 47.—We are of the view that preference should be given to specific duties.

Question 48.—Careful consideration should be given to the quantity of the indigenous manufacturers before making use of tariff quotas.

Question 49.—A minimum duration should be laid down for any protective measures and not the maximum one. The duration itself should vary with the Industry concerned and should be sufficient that the Industry to compete on equal terms with foreign manufacturers before protection is lifted.

Question 50.—We are of the view that the present system of Revenue classification needs a complete revision as may materials which were not previously regarded as materials for Industrial use are now recognised as such and individual industries should be taken into consideration in such a revision.

Question 51.—The objectives of our long term fiscal policy should be :—

1. Development of the natural resources of the country through rapid Industrialisation.

2. Attainment of self-sufficiency in the basic requirements of food and clothing.

3. The increase in the volume of export and import trade.

Question 52.—We wish to state, we are against participation by Government or Quasi-Government institutions in any form of foreign trade. We should like to cite an example of the failure of attempts by the Central Government to purchase Yarn and Cloth from the Indian Mills for sale in Pakistan the amounts relating to which are still pending and in many cases the Government have requested the Mills concerned to take back the bales. Such confusion would not have taken place if the trade has been left to the usual trade channels.

Another example is the purchase of Sudan Cotton by the Government which was supplied to the Mills at an abnormal price and afterwards this cotton was not found useful to spin 60s and Mills lost heavily on this account.

But as an alternative to Government Trade, a very efficient method would be for the Industry to purchase on a Cooperative basis from other countries its requirements of raw materials and stores so that ultimately cheapness will result.

Question 53.—It does not arise.

Section E

Questions 54 & 55.—We are in general agreement with all the non-fiscal measures suggested therein.

Questions 56 & 57.—In order to facilitate greater cooperation between the Industry on the one side and the Government on the other, Trade and Industry should be given protected seats in the Provincial and Central Legislature.

Questions 58 & 59.—In view of the altered relationship between India and the other Commonwealth countries the principle of preference should be judged individually on its merits and use it to our advantage in the formulative period of our Industries. But it is desirable to retain the freedom of having preferential tariff where it is necessary, if thereby the country's trade would benefit.

Questions 60 *to* 63.—In view of the abnormal Wartime conditions and inflated prices it is difficult to make any conclusions.

Questions 64 & 65.—In view of the Devaluation of currencies the whole question of Imperial Preference should be completely re-examined.

Section G

Question 66.—(a) Yes. (b) (i) If the tariffs have been assessed correctly and fixed and the imports on that basis are allowed freely it will work as a corrective against any profiteering.

(ii) We fully recognise that with the progressive development of industries there should be a gradual improvement in the living conditions of labour and in their welfare. In this connection there already exist the Indian Factories Act 1934 safeguarding the interests of labour, supplemented by recent Central and Provincial legislative enactments in the form of the Industrial Relations Act, Minimum Wages Act, Employees' State Insurance Act, etc. Besides it is also contemplated to enact legislation for Fair Wages. Inasmuch as all these legislative measures will apply to the whole field of industries, we are of the view that no special legislation is necessary for safeguarding interests of labour in protected industries.

(iii), (iv) & (v) It should be the policy of the Government to make technical improvements available to the various industries so that they can reduce the cost of production which ultimately result in the removal of protection.

(vi) It should be dealt with as and when contingencies arise. But control should only be resorted in times of grave shortage and emergency.

Question 67.—(a) Industries receiving protection or assistance should be discouraged from forming combines or from resorting to any deliberate curtailment of production or increase of prices.

(b) It is impossible to lay down conditions beforehand nor it is necessary.

Question 68.—It will be difficult to lay down conditions regarding the financial protections.

Question 69.—We would suggest the fixation of certain minimum standards of quality particularly for the goods that are to be exported. With any Body that may be set up in order to establish and to maintain these standards of quality the Industry concerned should be fully associated.

Question 70.—Any applications should be left to the tariff making machinery on an *ad hoc* basis in each individual cases.

Question 71.—(a) & (b) We do not consider that any special administrative machinery is necessary to ensure that the obligation of protected and assisted industries are duly discharged. The Tariff Board should be able to watch the progress made by industries which have been granted protection and review periodically on suitable recommendations.

(c) It is not desirable for the Government to be represented on the management of protected or assisted industries.

SECTION H

Questions 72 *to* 77.—We think that the present machinery for the implementation of a comprehensive policy as regards fiscal as well as non-fiscal measures to be insufficient and that appropriate machinery should be set up not only for the coordination of these two measures but also for the coordination between the policies of the Central and the various Provincial Governments. We would also suggest that the Tariff Board should have adequate technical assistance in coming to their decision on the protection of industries.

Question 78.—Yes.

Questions 79 & 80.—The existing functions as laid down by the Government on 3rd November 1945, 26th November 1947 and 6th August 1948 are adequate.

Question 81.—The present structure and organisation of the Tariff Board are adequate.

Question 82.—Yes.

Question 83.—No.

Question 84.—In view of the delay caused by applying to the Government and the Government after satisfying themselves that there is a *prima facie* case before recommending to the Tariff Board application should be received directly by the Tariff Board and if they feel that there is a *prima facie* case then they should take up the question of protection.

Question 85.—Refer answer above.

Question 86.—No comment.

Questions 87 & 88.—(a) and (b) Yes. The Tariff Board must be placed on a statutory basis. The statute should lay down the composition and functions of the Tariff Board, and the general principles governing Tariff Policy. But the general procedure to be followed in tariff enquiries and the manner of enforcement of the obligations of protected industries should be left to the decision of the Board itself.

(c) The statutory provisions should be framed in such a way as to allow the maximum freedom to the tariff Board in their enquiry and no rigidity in procedure should be laid down. The Statute should also empower the Ministry to change the composition except the Chairman as often as is necessary for the particular industries that are under investigation subject to the members possessing the other qualifications already laid down by Statute.

INDIAN NATIONAL SUGAR MILLS WORKERS' FEDERATION, LUCKNOW

Memorandum submitted to the Fiscal Commission, Government of India, on behalf of the Indian National Sugar Mill Workers Federation (Affiliated to the Indian National Trade Union Congress) by Dr. P. K. Choudhuri, Senior Vice-President.

The rapid expansion of the sugar industry in India under the spoon-feeding of protective assistance is undoubtedly a matter of great significance for the country's industrial enterprise. In the year 1930-31 India had to import 9 Lakhs tons out of its 12 Lakhs tons of sugar consumed, whereas, in 1940, she, meeting her bare demands, started thinking of exports. The production of white sugar in India was only 1,20,000 tons in 1930-31. The tariff protection besides creating a buffer wall for the industry against foreign competitions has guaranteed it on a basic working condition, a scheduled income of 10 per cent. on the black capital (including taxes) for a factory of 750 tons having a crushing season of 100 days and a recovery of 9.5 per cent. From its most wretched condition in 1930-31 the industry reached its maximum production of 12 Lakhs tons in 1943-44. So far as the percentage of recovery in concerned although for lack of scientific methods of farming and climatic conditions obtained in Java and other sugar producing countries of the Pacific Ocean Area the Indian Industry has yet failed to reach a recovery at par with those countries, it is undoubtedly a great success for the Industry to have reached a recovery as high as 10.28 in 1942-43 and 10.02 in 1943-44 with a start of 8.89 per cent. immediately before the protection was given.

Condition of wages :—Before the war the total wage for a sugar factory worker was Rs. 7/5/- a month i.e. -/4/6 per day. It has gradually increased to Rs. 1/13/9 per day in January, 1949. There has been a corresponding increase in the sugar price from Rs. 6/6/7 in 1936-37 against cane price at the rate of -/4/- per md. to Rs. 35/7/- in 1947-48 against cane price of Rs. 2/- and Rs. 29/7/- against cane price at Rs. 1/10/- in 1948-49. The present labour cost works out at about 10 per cent. of the sugar price. The cost of raw material is about 60 per cent. of the sugar price and the remaining 30 per cent. is allocated in various heads such as cost of manufacturing including stores, depreciation, overhead charges, taxes and profits. Although no figures may possibly be availed on this score, the industry undoubtedly makes an appreciable saving in the manufacturing and labour allotted in the sugar price. In the year 1947-48 sugar price was fixed at Rs. 35/7/- per md. An additional income of Rs. 2/- per md. was allotted to the Industry in the sugar price over and above the scheduled profit of 10 per cent. on the block capital. That has fetched an extra income of about 5 Crores and 50 Lakhs of rupees to the Industry.

From the rapid development of the Industry within the period from 1932-33 to 1945-46 it is easy to appraise the total profits earned by it which made the investment of such huge capitals possible. Moreover although it is not possible for us to place accurate figures, a peep into the accounts of the 130 sugar factories in India which have existed since 1934-35 will convince the Commission of our submission that most of these factories have already distributed a total dividend of 3 to 4 hundred per cents. up-to-date. In the same way the total amount accounted for and realised as depreciation is apt to have reached a figure almost equal to the paid up capital of the Industry, if not at least to its 80 per cent. It is interesting to note that the owners of this Industry have, from the very start, lacked very hopelessly in wisdom and farsightness which are pre-requisites for the economic soundness of an industry. They have behaved just like traders who care to purchase a commodity from one market of a city and to sell it at another market at a bargaining price. It is shocking to find that 80 per cent. of the sugar factories of India have accumulated no reserves to meet successfully slumps and crises. They stand at the sweet-will of the financing banks with whom they enter into a cash credit transaction. It is all the more shocking to find that while the amount realised from year to year as depreciation ought and to have been kept reserved for the replacement of old machineries by new and up-to-date ones, this appears to have gradually disappeared perhaps in investments on some other units.

Conditions of raw materials :—For the maximum efficiency and production every industry has to be rationalised. Rationalisation does not mean only standardisation of the man-power. The standardisation of the machine-power as well as maximum availability of quality raw materials are also none the less essential. The sugar factory owners have long been raising a false cry of efficiency with a view to obtain permission from the Govt. to retrench man-power but they have been conspicuously inactive and indifferent towards the other two necessities of efficiency and production which are up-to-date machineries and arrangements to secure quality of canes yielding maximum amount of sugar. Comparative overloading of staffs is not so much injurious to the Industry as the shortcomings in other two heads. The sugar mill owners of U.P., specially of the eastern districts now cry for shorter seasons which ultimately affects the average, production of India as a whole but in spite of such high profits earned under the parental care of protection, the industry has not cared at all for the development of canes on scientific lines which only could keep it alive. The immediate result of this indifference has been an abnormally shorter season in the eastren districts of U.P. and Bihar—otherwise India could by this time undoubtedly stabilise her production to 1.5 millions tons per year.

The sugar Industry is outstandingly ill-managed which not only affects its economy but also its efficiency. The expenses incurred on account of wages to workers are comparatively low whereas the overhead charges of supervision and management are too high. The salaries of the supervisory Officers range from Rs. 500/- to Rs. 3,000/- as generally against their academic qualifications and technical efficiency which are not in keeping with the high remuneration given them. The obvious reason for this appears to be the undesirable and anti-social methods very often adopted by sugar factory owners which make it incumbent on them to provide personnel of less technical skill at high remuneration only to aid and abet their corrupt practices. Really efficient technical personnel are essentially necessary for the enhancement of the efficiency of the industry. The remunerations of the Managing Agents or Managing Directors as salaries and also as commission on sugar produced or sold and in certain cases as a specified fairly high percentage on the nett profit, take away the cream of the profit and leave comparatively less fair amount to be apportioned by the share-holders, workers and for floating the reserve fund. Rationalisation of the expenses of supervision and management is of essential importance and there should be scope for efficiency—bonus to workers as an incentive for greater technical skill. Advance budgets of the probable expenditure of various factories allocated in different heads of account and approved by a permanent composite board of technical and economic experts are worth a trial. The plantation industry under European immediate nationalisation of the sugar industry.

Attitude of the sugar mill owners and the Sugar Syndicate.—Although with the thriving of the industry and consequent multiplication of sugar factories all over the country specially in the U.P. and Bihar there has been an automatic expansion of the area under cane cultivation, the mill owners have practically failed in their duty of developing quality canes and their intensive production, which only can keep the industry alive. Moreover mal-practices have been not infrequently resorted to at the cost of the illiterate growers. Since the formation of the Indian Sugar Syndicate to organise and promote sale of sugar, utmost efforts have been made to keep the sugar rate at a high ebb. The monopoly and statutory recognition of the Syndicate, as the sole promoter of sales and fixation of basic prices, has very adversely affected the consumers' interest as well. Moreover instances are on record where the Syndicate as the guardian of the Industrialists, has tried to put coersive pressure on the Government on the fixation of sugar price at its convenience and choice. The Syndicate has obviously tried to feed the vested interests of its constituents totally ignoring the greater interest of the country. It goes without any fear of contradiction that the recent freezing of stock by the Government was an emergency created by the millowners under the protection of the Syndicate due to abnormal bargains at the cost of the country. A regular tussel has yet been going, on for the revision of the sugar price which, according to the

Syndicate, ought to have been Rs. 30/4/- per md. The crushing season in the central and western districts of the United Provinces ought to have started by the third week of November at the latest owing to the large yield of sugar-cane in their area and the consequent necessity of crushing canes totally before it is inconvenient for excessive heat of the summer season to prolong the season beyond reasonable limits. The Syndicate has undoubtedly been at the back of these coersive tendencies of its constituents. So the logical conclusion drawn from this intentional dead-lock in the industry leads to the fact that the Syndicate has outlined its utility and should be dissolved forthwith and an all-India sale's organisation with an advisory committee composed of all interests should be formed to promote and regulate the sale of sugar. This organisation will have its branches in all sugar producing provinces and States' Unions and push the sale and equitable distribution of sugar through consumers'-co-operative societies.

Private Ownership vis-a-vis *Nationalisation.*—The sugar industry has actually reached this stage at which nationalisation is easily practicable. The Indian National Trade Union Congress which has, in its fold, the vast majority of the sugar workers of India, feels bold to give its pledge of maximum working efficiency in case the Government decides to nationalise the industry. Majority of the sugar factories of India have already given dividends to the extent of at least more than two hundred per cent. So in case of those factories whose dividends have already gone at par with the paid-up capital and the amount drawn on depreciation has been at par with the price of the machineries the question of paying compensation should not arise. Others which have not reached that stage should be adequately compensated.

We entertain a firm belief in the success of the industry under State ownership. It is then only that this premier industry of the country might stand on its own legs even without protective assistance after only a few years otherwise all attempts to stop capitalistic bungling will be abortive and spoon-feeding must have to be kept alive at all on behalf of the National Sugar Federation of the Indian National Trade Union Congress. We would appeal to the Commission to kindly submit its recommendation in favour of immediate nationalisation of the sugar industry.

Claim of protective assistance.—The industry at this stage needs being given protective assistance for a maximum period of five years on the following conditions :—

I. The extent of Government cantrol should be determined by the technical personnel of the Tariff Board or any other committee suggested by it in case private ownership is allowed to continue.

II. The factories should be located in areas ensuring maximum supply of quality canes and having easy transport facilities.

III. Balancing of unbalanced plants.

IV. Improvement of manufacture by the production and supply of developed and fresh canes, using ultra-modern methods of processing with co-related modern units and shortening of the process ensuring total loss of sugar in cane not more than 2 per cent. and the quality not inferior to D27.

V. Purchase of canes though a single organisation i.e. cane co-operative societies.

VI. Financial and technical control of the factories should be made with very strict scrutiny by the Government.

VII. These five years of protection should spent in developing collective farms of canes with high fibres and high sucrose content and a minimum yield of 700 Mds. per acre.

VIII. Intensive development of bye-product industries such as paper and card-board factories from baggasse vitaminised confestioneries from sugar, east for animals and human consumption and road surfacing materials from molasses, fuel and manures from Press Cakes.

IX. Development of goods and their feeders for easy and quick transport of cane so that fresh canes may be available for crushing.

Table showing the number of sugar factories in the United Provinces and India and the condition of production from 1931-32—1945-46.

Year	No. of factories in U. P.	No. of factories in India	Sugar produced in U. P.	Sugar produced in India	Recovery in U. P.	Recovery in India
			Tons	Tons		
1931-32 . .	14	32	73,000	1,58,781	8·59	8·89
1932-33 . .	33	57	1,40,000	2,90,177	8·53	8·66
1933-34 . .	60	112	2,74,000	4,53,965	9·08	8·80
1934-35 . .	65	130	3,16,000	5,78,115	8·56	8·66
1935-36 . .	67	137	5,30,000	9,32,100	9·3	9·29
1936-37 . .	68	137	6,09,000	1,11,400	9·65	9·50
1937-38 . .	68	136	5,31,000	9,30,700	9·18	9·38
1938-39 . .	69	139	3,20,000	6,50,800	9·14	9·29
1939-40 . .	70	145	6,60,000	12,41,700	9·37	9·45
1940-41 . .	70	148	5,13,300	10,95,400	9·87	9·70
1941-42 . .	70	150	3,82,900	7,78,100	9·87	9·69
1942-43 . .	71	150	6,12,500	10,70,700	10·16	10·28
1943-44 . .	70	151	7,27,100	12,16,400	9·12	10·02
1944-45 . .	67	144	5,28,900	9,85,100	10·22	
1945-46 . .	67	150	5,15,000	12,00,000	10·09	
1946-47 . .			5,25,800		10·03	
1947-48 . .			6,02,600		9·83	
1948-49 . .			5,31,370		9·98	

Table showing per capita *consumption of sugar in various countries of the world* :—

United Kingdom	106 lbs. per head
U. S. A.	97 ,, ,, ,,
Brazil	34 ,, ,, ,,
Australia	116 ,, ,, ,,
France	52 ,, ,, ,,
Germany	52 ,, ,, ,,
Cuba	88 ,, ,, ,,
Java	11 ,, ,, ,,
Japan	33 ,, ,, ,,
Union of South Africa	47 ,, ,, ,,
India	27 ,, ,, ,, (including 20 lbs. gur)

From the above table it is evident that the *per capita* consumption of sugar in India is the poorest of all countries of the world only 7 per cent. So there is much scope yet for expansion of internal trade by diverting more canes to sugar Factories which should be competent enough to make intensive productions. In striking contrast to this glaring prospects there is a gradual decline

in cane yield in the most suitable cane growing areas of eastern U.P. and Bihar where about 60 factories of the country are located. We hold the total indifference of the millowners towards development of canes in quality and quantity solely responsible for this impending calamity in the Industry. They have been made after begging high profits behind the shelter of protection without earning to purse the available source of raw materials.

If we examine the percentage of cane used for different purposes in 1943-44 we find that only 25 per cent. of the total cane produced in the country was utilised by the sugar factories as against 50 per cent. in manufacturing gur. This is not at all encouraging for the industry. It also means that no attempts have been made to grow quality and high fibres cane in sufficient quantities more suitable for sugar factories only, with the result that half of the cane of the country has been utilised in manufacturing gur. It also indicates that given proper attention to the development of quality canes, India could easily produce at least 2 million tons of sugar.

Lastly it is really a tragedy that in spite of India's premier position among the sugar producing countries of the world and its great prospect for much higher production, sugar has been very scarce in the country and selling at a very abnormal price. The Govt. of India should conduct a searching enquiry to find out where sugar has gone. With the partition of India into two contiguous States and Pakistan's refusal to purchase Indian sugar on the plea of high prices and its inadequate import of sugar from foreign markets there are reasons to apprehend that much of our sugar has gone away through resourceful intermediaries at high bargains to the rural areas of Pakistan where sugar was almost a myth. To what extent the different sugar marketing organisations and the millowners are responsible for this national tragedy the Government is to ascertain.

We again emphasise on our appeal for the immediate nationalisation of the sugar industry which is really practicable and requires only boldness of the State for its materialisation otherwise this premier industry of the country will have its dooms' day in no distant future.

THE C.P. AND BERAR MILLOWNERS' ASSOCIATION, NAGPUR

I am directed by the Committee of the C.P. and Berar Millowners' Association, Nagpur, to refer to the Commission's letter No. 1-Fis/A(5)/49, dated the 25th June 1949 forwarding a copy of the questionnaire issued by the Commission and desiring the views of my Committee on the scope and purpose of the future fiscal policy in generally and specially their replies to the questions raised under different sections of the Questionnaire.

2. At the outset, I am desired by my Committee to point out that although my Association is directly concerned with the affairs of the textile industry in this Province, in view of the fact that the future fiscal policy of the country is directly bound up with the general economic and agricultural development of the country as a whole, their views are not therefore mainly concerned with the textile industry but generally cover the entire sphere of the trade, commerce and industry of the country.

3. My Committee wish me to emphasise that it is essential to include such vital subjects as the effect of the existing structure of taxation on industry and the place of foreign capital *vis-a-vis* the fiscal policy within the scope of the enquiry entrusted to the Fiscal Commission.

4. Secondly, on account of the low-profit margins as a result of steep direct taxation. it has become almost impossible to raise capital for industrial and commercial projects, however sound and promising they may be. That means there is little scope for capital formation in the country at present, although the need for the maximum amount of capital formation was at no time greater for an economically backward country like India. The existing tax structure which has admittedly been a lopsided one and unbalanced and wholly regressive in its effects on industrial development needs, therefore, to be examined in all its aspects in relation to the objectives of the appropriate fiscal policy that may be evolved.

5. Another important aspect which seems to require emphasis is in respect of foreign capital. Certain categorical statements made by the Ministry of Industry and Supply have legitimately given rise to fears whether the full implications of the policy of foreign capital *vis-a-vis* the fiscal policy of the country have been properly assessed and realised. For example, the recent statement made by Government that even in the sphere of protected industries "when protection is conferred on a particular industry, all the units of that industry, whether Indian-owned or not, will be automatically entitled to claim benefits of such protection" raises certain very pertinent issues in respect of the grant of special assistance to enterprises, the ownership and management of which are essentially in national hands. Foreign concerns have already been allowed to establish themselves in the country and the cases of some more are understood to be under consideration. In this connection, my Committee would like to raise the important question as to whether the terms and conditions on which such foreign concerns are going to be allowed to be established in the country will be in keeping with the main point of the Statement of Industrial Policy, viz. that the major interests in ownership and effective control should always be in Indian hands. It should be made perfectly clear that foreign capital will be treated on a footing of perfect equality in every respect once it is allowed to enter the country.

6. Before proceeding to give detailed replies to the questionnaire, my Committee would like to make the following preliminary observations on the nature and working of the policy of discriminating protection and the need for a complete reorientation in the country's fiscal policy calculated to encourage and promote rapid industrialisation to the fullest extent possible.

Policy of Discriminating Protection.

7. My Committee are definitely of the view that the policy of discriminating protection as enunciated by the Fiscal Commission in 1922 in what is known as the Triple formula proved to be disappointingly slow and ineffective, hardly appropriate to meet the requirements of industrial development

of an under-developed and agricultural country like India, wich will be evident from the fact that during nearly twenty years of the operation of the policy only eight industries were developed or established under the shelter of protective tariffs. If a more liberal and vigorous policy were pursued, India would have achieved her industrialisation at a much faster pace and would not have been found unprepared as she was on the eve of the second world war. In view of the halting and half-hearted nature of protection given to various industries by Government, it will be more appropriate to say that if some of the industries were developed and stabilised during the period it was largely due to the rising nationalist sentiment of the Indian people and the initiative and pioneering spirit of the Indian industrialists. The policy of protection played but a limited part, inasmuch as the protection given to industries was in a large number of cases essentially of a safeguarding variety.

8. Speaking with particular reference to the textile industry, it is common knowledge that protection to the industry was not immediately available when asked for. Then, only a section of the industry, namely, yarn, was protected, leaving the major section of the industry's manufactures, namely, cloth, unprotected. When at last a small measure of protection was conferred also on the weaving section of the industry, certain other extraneous factors came into existence, when neutralised the effect of that protection. Here, the refernce is to the depreciation which took place in the Japanese and Chinese currencies which gave an enormous fillip to these two countries in their export trade with India. When at last countermeasures were taken, India in common with the rest of the world, entered into a prolonged trade depression accompanied by financial stringency and. drop in commodity prices. This made things difficult for the industry in consolidating and strengthening its position behind the tariff wall, and practically till the commencement of the world war, it was impossible for the industry to make any substantial improvement so far as its financial position was concerned. It is unnecessary to enter into what happened after the commencement of the war, but it is true that the war gave an enormous fillip to the Indian cotton textile industry, and helped it to improve its financial position. While the protective tariff might have helped to keep the industry alive in the immediate pre-war period, it was the world war which really helped it to strengthen its financial position.

9. It should not, however, be understood that the industry's present financial position is everything that could be desired, but it should be pointed out that most of the profits made by the industry in the war period were drained off by Government in the form of taxation. It is an admitted fact that during the war and immediately thereafter the industry was working practically to death. All major repairs and overhauling, which necessitated a shut down of some of the machines were postponed to avoid drop in production, and also on the ground that the necessary spares were not available. Replacements of capital machinery were almost unobtainable, and even to day whatever small quantities are available are coming in at prices which are about three to four times the prewar prices. The industry's machinery is badly in need of replacement, rehabilitation and remodelling, and the industry should necessarily be placed in a position in which it would be able to set aside sums which would make good this need in the minimum number of years.

10. It is a significant commentary on the pace of industrialisation during the tariff wall, and practically till the commencement of the world war, found to be weak and ill-equipped inasmuch as even established industries such as textiles, paper, etc., found their supplies of essential raw and processed raw materials and stores cut off on account of the war. Absence of chemical industries reveal the precarious nature of the country's dependence on such supplies from abroad, nor had India developed metallurgical and other subsidiary and auxiliary industries which could meet the requirements of the established major industries. It is pertinent to note that no basic or key industry worth the name was developed during the period.

11. An explanation for this state of affairs is, in the view of my Committee, to be found in the half-hearted and apologetic view of the Commission that 'India for many years to come is likely to concentrate on the simpler forms of

manufactured goods.' Another factor responsible for slowing down the pace of industrialisation of the country was the 'infant' industry argument which was recommended by the Commission and adopted by Government as a basis for the grant of protection.. While the Commission accepted the argument that an industrially backward country, full of industrial potentialities, can justifiably use protection with a view to meeting competition from industrially advanced countries, who have not only the initial advantages of an early start but also the advantage of established superior production technique, they failed to realise that the theory was applicable to a backward country as a whole and not to an isolated infant industry. In fact, instead of recommending a bold policy of protection, which alone could bring about rapid industrialisation in a backward agricultural country, redressing the balance between agriculture and industry, the Commission recommended protection on the 'infant' industry basis, more appropriate for industrially advanced countries than for an under-developed country like India. This error, in the view of my Committee, vitiated the approach to the problem of Indian industrialisation and resulted in the piecemeal and restricted type of protection.

12. The policy of discriminating protection again was based on a narrower and incorrect view of the development of industries, inasmuch as the Tariff Board worked on the basis of the theory that protection should be considered only for those lines in a particular industry which were already established in India and not in respect of those which being mutually inter-dependent were capable of being developed and should have been developed. Instead of taking a dynamic view, the Tariff Board at times seemed to adopt a static view of the need for protection and recommended protection only for selected products within each industry. This narrow interpretation of the principles of protection resulted in the neglect of the allied branches of the same industry for want of sufficient encouragement and protection.

13. The haphazard nature of the policy of protection is further illustrated by the recommendation of the Commission that as a rule the tariff protection should not be granted to new industries. This condition *prima facie* ruled out the case of potential industries, which could have been developed under the promise of a full fledged scheme of protection.

14. The conditions for the grant of protection as prescribed in the triple formula were unduly restrictive in their scope and the procedure prescribed for the formalities connected with an enquiry into the claims for protection for any industry was dilatory and unduly meticulous. India with all the natural advantages which she possesses in respect of abundant supply of raw materials, sufficient supply of labour and a large home market would have easily attained an important place in the industrial world, if a bolder and a more liberal fiscal policy were adopted.

15. The Fiscal Commission laid down as the first condition, that if the industry is to qualify for protection it 'must be one possessing natural advantages, such as an abundant supply of raw materials, cheap power, a sufficient supply of labour or a large home market. Such advantages will be of different relative importance in different industries, but they should also be weighed and the relative importance assessed.' In actual practice, in respect of several enquiries a rigid interpretation was placed on this condition, and as a consequence the claims of several industries were turned down by the Tariff Board or by Government. Such a test when applied to an industrially backward country merely results in imposing unwarranted fetters on the industrial development of the country. In fact, if such rigid conditions had been imposed, countries like Britain, Japan and Germany could not have developed most of the organised industries which they were able to do under the shelter of a strong protectionist policy.

16. The second condition, *viz.*, that the industry must be one which with the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country, is merely explanatory of the principles of protection and as such should have had no place in the formula.

17. The third condition, *viz.*, that the industry must be one which will eventually be able to face world competition without protection is important, inasmuch as it emphasises a necessary aspect of the principle of protection, that no industry which is likely to become a burden on the community should be protected except on broad national grounds. In fact, it should have been linked up with the first condition with the necessary proviso relating to the cost of an industry. It is necessary to bear in view an important difficulty which is likely to arise in respect of arriving at a proper forecast as to the future cost of production. However, scientific and elaborate the method of estimating costs may be, this part of the function of the Tariff Board is likely to remain more or less a guess work as to the future which is conditioned by a number of unforeseen circumstances over which the industry may have no control. While all the relevant factors may be taken into consideration, ability of the industry to face world competition eventually, without protection, should not be laid down as a condition precedent to the grant of protection.

Machinery and Procedure of the Tariff Board.

18. As regards the machinery, procedure and formalities connected with the implementation of the policy of discriminating protection, several defects have been found in actual operation. The establishment of a competent and impartial Tariff Board is an integral part of the scheme of discriminating protection. According to the recommendations of the Fiscal Commission, the Board was to be a permanent body so as to secure consistent decisions and continuity of policy. Owing to the failure of Government to put these recommendations into effect, the objective of the Fiscal Commission was defeated and quick changes of personnel resulted in avoidable delays in completing the enquiries. As the powers and functions of the Board were not defined in a statutory manner, there existed a great deal of scope for conflict in the interpretation of the principles of discriminating protection between the Government and the Board. The Fiscal Commission had rightly suggested that the Tariff Board should have wider powers, but it is a matter of common knowledge that the powers of the Tariff Board appointed by Government from time to time were strictly limited. The Board had no initiative and could only investigate cases of those industries which were referred to it by Government.

19. Another defect in the procedure relating to the applications made by industries for protection was that the said applications should first be submitted to the Commerce Department of the Government of India fully stating the case for protection. The Department would forward the applications to the Tariff Board for consideration only if they were satisfied that a *prima facie* case had been made out by the applicant industry for protection. This procedure inevitably resulted in loss of time and consequent dilatoriness.

20. Again, the recommendation of the Fiscal Commission that 'the Government should publish the results of the enquiry promptly, whether it agrees with the conclusions of the Board or not' was, it may be pointed out, largely observed in its breach. Industries which were passing through serious difficulties and which, therefore, were in need of urgent assistance were made to wait by Government in respect of their decision for an inordinately long time in a state of animated suspension. It is well known that in case of industries such as cotton textiles and sugar, nearly 2 years elapsed between the date of reference and the final decision as to the action by Government.

21. The object of my Committee in reviewing broadly the limitations and defects inherent in the policy of discriminating protection and the machinery of the Tariff Board constituted from time to time to implement the same, has been to emphasise the fact that the policy in force has failed to promote the cause of Indian industrialisation and, therefore, the principles laid down by the Fiscal Commission in 1922 need in the altered context of affairs to be completely overhauled and restated, to suit the needs and requirements of our industrial and economic development. While formulating such a policy, the Commission will have to take into consideration important factors such as the impact of war on our economic structure and the serious repercussions of partition on

our country; for example, as a consequence of partition two of our major industries, textiles and jute, have been seriously affected in respect of the supply of their raw materials, *viz.*, cotton and raw jute, and from being an exporter of these raw materials India is now reduced to the position of a net importer. In the opinion of my Committee, the greatest need of the country is a new perspective and a fresh approach to the urgent problem of all-round industrial and economic development. The plan and programme of industrialisation outlined by the Government of India in their Statement on Industrial Policy are sufficient to indicate the tremendous leeway that India has to make up in the direction of industrial development. This, my Committee feel, can only be achieved by a comprehensive policy leaving the whole field of industrial development, barring defence industries, to private enterprise with the necessary active assistance of Government.

22. Before outlining the general nature of the new fiscal policy that would be necessary for achieving the task as mentioned above, my Committee would like to refer to certain important features which are likely to influence the formulation of our tariff policy. There will be a growing need for the import of capital goods and machinery, partly for the replacement of those industries which had been overworked during the war time and partly for meeting the requirements of new industries proposed to be established. With the development of new industries contemplated under the Industrial Policy, India will have to progressively reduce her exports of raw materials as a result of increased domestic consumption of the same and to that extent our traditional pattern of trade will have to undergo a change, inasmuch as it will be necessary to increase the exports of manufactured and processed goods by diversifying India's export trade and developing new markets. This will again have to be closely linked up with our need for an export trade, both with a view to remedying the present adverse balance of trade position and raising the purchasing power of the people of the country. This necessarily implies that India will have to increasingly participate in international trade, subject, however, to the condition that the same is not detrimental to national interests.

23. My Committee are strongly of the view that the policy of protection properly related to the task of industrial development alone will prove to be an effective method of utilising the vast resources of the country in men and material for the maximum production of wealth, resulting in increasing national income and enhancing the taxable capacity of the people and raising the general standard of living of the people. The fiscal policy of the future should not merely be an instrument of industrial policy, but must be viewed as an integral part of the larger economic policy of the country as a whole. The situation, therefore, demands that a policy of full-fledged protection directly related to the country's need for rapid industrialisation must replace the halting and piecemeal policy of discriminating protection and the conditions and qualifications for protection which resulted in retarding the industrial progress of the country should be liberalised and simplified under the new fiscal policy. As an industrially under-developed country, India should be perfectly free to make a legitimate use of protective measures, so as to expand production and employment at home and to raise the living standards of the people. The protective measures may be non-fiscal such as direct assistance rendered by the State in such matters as finance, scientific research, transport, etc., as well as of an indirect nature, in the form of tariffs, subsidies or bounties and quantitative restrictions. India as a backward country would be mainly using the protective measures for the developmental purposes and therefore should have the fullest freedom to utilise these measures for expanding and developing her established as well as new industries.

24. The broad principles of the fiscal policy outlined above will necessitate the constitution of a new Tariff Board or any other suitable machinery with adequate powers for implementing the same. The Tariff Board should be a permanent body vested with wide powers and functions by a statute: for example, whenever it is convinced that there is a *prima facie* case, it should be authorised to undertake an investigation on its own initiative in respect of the conditions of a given industry and its specific difficulties. The Board must also have power to review from time to time the working of protected industries and

report to Government the progress made by such industries. In my Committee's opinion, the constitution of a permanent Tariff Board with adequate powers and functions and with necessary initiative and freedom will be of considerable assistance in accelerating the pace of industrial progress in the country.

25. My Committee's detailed replies to the various questions contained in the Questionnaire are given below :—

Question 1.—Since the Fiscal Commission reported in 1922 various factors such as national struggle for attaining political freedom, great depression in 1931, second world war, partition of the country, etc., have affected the economic structure of the country with the result that a complete change in the approach of the problem with which the Commission is concerned has become absolutely necessary. The main objective of the Commission should naturally be to bring about as rapid an industrialisation as possible with all such protective measures as may be necessary to foster and develop industries.

Question 2.—Generally speaking, the industrial developments of recent years have not altered the predominant position of agriculture in the economy of the country. Over a long period of years foodgrains production has tended to remain virtually stationary in spite of the Grow More Food Campaign. In the food sector of the agricultural economy, there has been deterioration, the steps taken by Government failing to improve the acreage under cultivation and production. Another important change in respect of agricultural production is the restriction in acreage under commercial crops due to the priority given to the production of food crops by the various legislative measures of the provinces. For example, there has been a recorded fall in the acreage of cotton and jute even prior to partition and after partition the production has been very much reduced. The total production of cotton and jute in terms of bales was 5.1 and 6.8 million in 1938-39 whereas in 1948 it has been reduced to 2.1 and 1.9 million, thereby indicating that our agricultural economy has suffered in respect of two of the main commercial crops which had and have a high export value. In respect of international trade in agricultural commodities there has been a significant change in the traditional pattern of our trade which consisted of exports of primary products and raw materials and import of manufactured goods. On account of war time requirements and the pressure on demands for internal consumption, the revised policy of Government to preserve the use of raw materials and food products for internal consumption changed the old pattern of trade and steadily there has been a decline in the export of raw materials and an increase in the export of semi-manufactured, processed or manufactured articles.

Question 3.—The main changes in the agricultural situation are likely to affect in a large measure the pace and direction of our industrial progress. The vital importance of securing self-sufficiency in food may restrict the expansion in acreage and production of such agricultural products as are used directly as raw materials for purposes of industrial production or in the process of manufacturing industrial products. It would seem advantageous to strike a balance between the maximum development of agriculture for self-sufficiency in food and for the targets of industrial production set up over a period. Changes in consumption habits would also influence the demand for manufactured articles thus maintaining the pressure on the scarce raw materials. Further, in order that industrialisation may advance rapidly, imports of essential capital equipment and raw materials in some cases are necessary and the flow of these into the country is dependent on our capacity to pay which again depends on exchange resources available and the rate of our imports. From the point of view of the implementation of the industrial programmes alone it would be necessary to give equal attention to our agricultural situation in so far as both are mutually dependent in attaining the economic objectives of a higher standard of living and full employment.

Question 4.—Basic improvements in our agriculture should subserve the urgent needs of attaining self-sufficiency in food which would save us foreign exchange and secondly of intensifying the production of crops that have a high

export value which would increase our foreign exchange resources while adequately meeting the requirements of the local industries. The urgent basic reform in agriculture would be to apply measures to increase the average yield per acre of all agricultural products which is far below that of any other country, by way of scientific improvement in seed selection, application of manures, organic and chemical and educating the farmer in the latest methods of farming through demonstration of tractor cultivation and use of improved implements. Reclamation of waste lands would increase the acreage under cultivation and such reclaimed lands could well be experimented upon for growing cash crops or subsidiary food crops. Any policy of intensified industrialisation will not yield desired results unless the living standards of the agricultural population are raised and to that end the above basic reforms must be enforced simultaneously. In order that our intensified industrial programme may be well supported in regard to the mineral requirements, there is need for strict conservation and planning in utilisation of available resources.

Questions 5 *and* 6 have been dealt with in thè preliminary remarks.

Question 7 (a).—Cottage and small-scale industries have been an integral part of the national and rural economy of India. Even at present, cottage and small-scale industries form an essential part of our rural economy. The agriculturist in India is not engaged in agricultural operations throughout the year. He pursues some subsidiary occupation to supplement the income derived from agriculture. Most of the cottage and small-scale industries have been in a state of decadence for the last many decades. During the last world war, cottage industries like the handloom industry got a fillip, but that was only a temporary phase and with the restoration of normal conditions, they are likely to relapse into the pre-war state. The question of rehabilitation and regeneration of cottage and small-scale industries must be considered in a comprehensive manner.

(b) (i) Our economy has unfortunately hitherto developed in a lop-sided manner and has been characterised by an unduly heavy pressure on land. Promotion and development of the cottage and small-scale industries will greatly reduce this heavy pressure on land and will greatly facilitate the evolution of a balanced economy in the country. This will also enhance the purchasing power of the agriculturists and give them the necessary wherewithal for the introduction of improvement schemes on their land. The relation between the cottage industries and the small-scale industries should generally be one of co-operation. In certain cases, however, competition has developed between them in the process of our economic development. For instance, in regard to hand weaving, small power looms have already started offering serious competition to the small handloom weaver. This is, however, inevitable as many of the small power industries have the quality of superior efficiency and the additional advantage of employing a large number of persons per unit of output than the cottage industries.

(ii) Cottage and small-scale industries have played an important role in our national economy in the past, and even if a programme of large-scale industrialisation is launched, there will be great scope for cottage and small-scale industries in the economy of the country. By judicious adjustment, it is possible to establish a mutually beneficial co-operation between large-scale industries on the one hand and small-scale and cottage industries on the other. Cottage or small-scale form of production is particularly suited for the better utilisation of the local resources and for the purpose of achieving local self-sufficiency in respect of certain types of essential consumer goods like cloth, agricultural implements, etc.

Question 8.—Whatever the pace of large-scale industrialisation, both cottage and small-scale industries will have a significant role to play in the national economy both from short and long term points of view.

Questions 9 *and* 10.—There are good prospects for many of our cottage industries in the foreign markets. The expansion of exports of the cottage products would give a great stimulus to the development of our cottage industries.

Question 11.—Protection to large-scale industries has not seriously affected small-scale and cottage industries.

Question 12.—The following are the main handicaps from which our cottage and small-scale industries have been suffering; foreign competition, lack of cheap and easy money facilities, comparative high transport charges, low purchasing power of the village population, absence of marketing facilities, dearth of technicians, lack of power generating machines, want of raw materials, illiteracy and taxation particularly municipal taxes like octroi and terminal taxes.

Question 13.—There is great scope for the products of our various cottage industries in foreign markets provided systematic attempts are made to introduce them in those markets. While entering into trade agreements with foreign countries Government should see to it that they contain provisions for the maximum offtake of our various cottage products by those countries.

Questions 14, 15, 16 have been dealt with in the preliminary observations.

Question 17.—Amongst the supplementary measures recommended by the Fiscal Commission, mention may be made of the following :

(i) *Technical education.*—Shortage of trained personnel had in the past caused difficulties in the matter of successful expansion of industries in the country. An efficient system of technical education is a matter of extreme importance. The schemes of education should be reorientated with a view to providing adequate opportunities for mechanical and technical training. Attempt should be made to bring about a greater degree of co-ordination between industry and institutions of industrial and technical training. Provision should also be made for giving the necessary training and equipment to the craftsmen in the village for the development of cottage industries.

(ii) *Railway Rates Policy.*—The whole railway rate structure needs to be completely reviewed and overhauled with a view to subserve the changing pattern of our trade, export and import, as the result of development of domestic production in respect of large classes of commodities. It is necessary to observe that the newly constituted Railway Rates Tribunal is a move in the right direction, and it is hoped it will look into the anomalies of the present rate structure including internal freight differentials and evolves a national rates policy for fostering industries which exist and which may come into existence hereafter. The Tribunal will also have to evolve a more broad based classification of goods for purpose of rate fixing.

(iii) *Measures against Dumping.*—The character of protection granted to Indian industries was largely of a safeguarding variety calculated to tide over transitional difficulties. This was mainly due to conditions of unfair competition brought about by monopolies, exchange depreciations, over-production and depression of world-wide character. In spite of conditions of unfair competition and the specific recommendation made by the Fiscal Commission, Government did not provide any anti-dumping legislation, apart from the Safeguarding of Industries Act, which for technical reasons remained a dead letter. The only safeguard available was in the form of a protective duty or something as revenue duty. The procedure adopted was not also conducive to the granting of immediate protection against dumping which industries needed. A fairly comprehensive legislation must, therefore, be enacted for the purpose of meeting the dangers arising out of any category of dumping. The anti-dumping legislation should not be mixed up with the question of protection. As to the procedure, necessary action should be taken by Government on the submission of *prima facie* evidence, followed up by a subsequent enquiry by the Tariff Board.

Question 18 (a).—Please see preliminary observations.

Question 18 (b).—In formulating the future fiscal policy, undue emphasis should not be placed on purely revenue considerations of Government, but the same should be related to the larger economic interests of the country as a whole.

Question 19.—A comparison of the terms and conditions laid down by Government for the Tariff Board to investigate into the question of protection or assistance to war time industries in 1945 with the conditions known as the triple

formula laid down by the 1922 Fiscal Commission does show a marked change in outlook and in accent. It may be observed generally that in the implementation of a fiscal policy it is not merely the question of liberalising conditions of protection but what is more relevant is the spirit in which the conditions are interpreted and applied with a view to bring about a rapid industrial development in the country.

Question 20.—Although there was inordinate delay in the inquiries conducted by the Board initially, the delay has been minimised in the subsequent inquiries. My Committee hope that in future it will be an accepted convention with Government that they will notify their decision within a period of two months of the date of submission of the Report by the Board.

Questions 21 *to* 27.—The Association has already replied to these questions and furnished information and sources from which the relevant statistical data could be obtained and compiled.

Question 28.—The revenue tariffs imposed in the past have had no appreciable effect in general on the growth and development of our industries and on the course of our export and import trade which were all determined by other extraneous factors. While revenue tariffs have no doubt constituted an important source of income to Government, they have failed to have a direct or indirect influence in furthering our industrialisation and expansion of foreign trade.

Question 29.—(a) The changes noticed in the course of our foreign trade cannot in general be attributed to the tariff policy pursued by Government, although they had the negative effect of preventing the growth and development of industries.

(b) In a period of general contraction in trade consequent on the world depression it is difficult to measure the extent of loss or improvement noticed in our domestic trade consequent on the tariff policy of Government.

Question 31.—A review of the trends of foreign trade during 1939-45 and 1946-48 reveals that there has been a striking change in the composition and direction of our external trade which has considerably altered the traditional pattern. It is incorrect to say that this change is indicative of the growing industrialisation of the country. In the last two years it has become clear that our export capacity falls short of our import requirements and this has been further affected by the removal from our export list of staple exports, as jute and raw cotton, consequent on partition. The present position in respect of external trade is one of reduced quantum in exports of traditional items and the gradual loss of markets captured during the war and an increasing flow of imports which make it difficult to maintain the advantages gained during the war in the composition and direction of the trade. This is also influenced by external factors such as a gradual fall in the world markets compared to an inflated price level within the country.

Question 32.—The question covers various aspects of Government's industrial and trade policies. Analysing the general effects on trade and industry of the various legislative and administrative measures taken to control and regulate our foreign trade, it is more than evident that these measures have not been successful in planning our foreign trades so as to help the growth and development of industries.

Question 33.—The fundamental premises on which the Fiscal Commission 1921-22, based their recommendations were that industrial development will bring about new sources of wealth, encourage accumulation of capital, enlarge public revenues, provide more profitable employment for labour and reduce excessive dependence of the country on agriculture. These premises still hold good, inasmuch as the country has neither far advanced in industrial development nor her resources have been fully exploited.

Question 34.—It is extremely difficult to determine the relative importance either of fiscal or non-fiscal measures in any definite manner under the present-day conditions. Under the present state of our economy, it is necessary to combine both fiscal and non-fiscal measures in a judicial manner with a view to protecting and developing industries.

Question 35.—An appropriate tariff policy can largely further the expansion of our external trade by facilitating the imports of essential raw materials, capital goods and machinery necessary for the implementation of the programme of industrial development.

Question 36.—The objectives of tariff policy in the short period will necessarily be governed by post-war economic situation prevailing in the country. These should be (i) to maximise production both industrial and agricultural by all possible means ; (ii) to protect and develop the essential war time industries as also a number of other industries which had come into existence during the difficult period and have helped to sustain the national economy ; and (iii) to develop and assist such industries which can command an export market, so as to be able to adjust the present adverse balance of trade in an advantageous manner to the country.

Question 37.—Yes.

Question 38.—The main conditions which should govern the recommendation of protection by the Tariff Board should be :—

(i) that the industry is sufficiently important from the point of view of the national interest and is in need of protection or assistance ; or

(ii) that the industry is in a position to command an adequate home market or a potential export market, and that the burden of such protection or assistance to the community is not excessive.

It is not desirable to incorporate the consideration that the industry within a reasonable time should be able to carry on successfully without protection or State assistance as a condition precedent to the grant of protection. It is necessary to reiterate that the conditions prescribed for the grant of protection should not be unduly restrictive and stringent but must be liberally conceived.

Question 39.—Priorities will have to be determined in the light of the industrial policy as laid down by the Government of India, which emphasises the primary need for expansion of production both agricultural and industrial and in particular on the production of capital equipment and goods necessary for meeting the basic needs of the people and commodities the export of which will increase the earnings of foreign exchange of the country. From this point of view, industries can be classified in the following categories, *viz.*:

(i) industries which are of strategic and national importance—defence industries ;

(ii) basic and key industries which are essential for the industrial expansion of the country ; and

(iii) all other industries which mainly comprise the consumer goods industries.

Question 40.—Yes.

Question 41.—*Tariffs.*—In spite of the fact that protective technique has assumed new developments particularly in the inter-war period, tariffs yet continue to play an important part not only as a means of raising revenue but also as an important instrument in the hands of the State to direct economic life and to determine the flow of international trade. Revenue duties occupy a very important place in modern public finance and are primarily intended to secure revenue to meet public expenditure. Tariff duties levied with the specific object of protecting industries are intended to bring about a most efficient and effective utilisation of national resources.

Bounty or Subsidy.—Subsidies or bounties involve either direct financial assistance or may assume the form of indirect assistance in the shape of remission of taxes, drawbacks of various sorts, etc. The indirect assistance may be through the grant of long term loans or credits to the manufacturers or exporters at low rates, or the Government may offer facilities through export credit insurance schemes. While the conditions in India may not permit too frequent use of the method of subsidies or bounties, in certain cases where the grant of subsidies has been best calculated to protect the industry and can be justified on grounds of national policy, the Tariff Board must be free to recommend such a measure if and when necessary.

Pool Prices.—The pool arrangement was a war time expedient and is not suitable to conditions of free market and healthy competition. The system of pool prices as exemplified by the case of aluminium price pool is not therefore favoured as a method of protection.

Quantitative restrictions.—As compared to tariffs and subsidies, the use of quantitative restrictions is the most effective technique of protecting industries against the inroads of foreign competition as also an important instrument of commercial policy for safeguarding the economic structure of a country during periods of emergency. An industrially backward country like India must have the fullest freedom to use quantitative restrictions both as a defensive and as a development measure. The Tariff Board should be free to recommend the use of quotas either singly or in combination with tariffs, according to the needs and requirements of the industries and exigencies of the situation.

Question 41 (b) *and* (c).—The Tariff Board must be free and should be free to determine appropriate measures of protection in each case on its own merits and may recommend such protection in any one of the forms of tariff aid, subsidy quota restriction or a combination of these measures, according to the needs and requirements of a given industry.

Question 42.—Please refer to reply to question 17 (iii)—measures against dumping.

Question 43.—(a) The imposition of export duties is not favoured as a general rule, as they fall on the domestic producers and discourage production.

(b) Yes. In respect of such consumer goods as are found to be in critical shortage, export control may be resorted to in the form of quantitative restrictions, on a careful balancing of the needs of domestic consumers and the requirements of maintaining our position in the export markets. In regard to domestic supplies of raw materials for utilisation of industries in the country which are in absolute short supply, export of such raw materials should be prohibited.

Question 44.—An established industry may be given an export stimulus by any one of the following three methods, *viz.* (i) subsidies, (ii) tax relief and (iii) freight relief. While a direct method of subsidy is considered more effective for stimulating exports, the same is likely to meet with objection from importing countries, as representing unfair competition, adversely affecting the terms of trade. As an alternative form of inducement, the profits of export trade may be taxed at a lower rate than the profits of home trade.

Question 45.—The method generally adopted by the Tariff Board in fixing the quantum of protection has been that of computing and comparing the fair ex-works price or the fair selling price for the home manufacturer with the landed cost (ex-duty) of the imported product. However, certain inherent difficulties have to be taken into consideration while adopting the procedure. Allowance must generally be given for cost due to freight differentials for transport of indigenous goods from the port of manufacture to other ports. There is also the practical difficulty in arriving at accurate cost in numerous cases where particularly several products are jointly supplied and no system of cost accounting can work out the cost for each item with a certain degree of accuracy. The cost of foreign manufactures do not become easily comparable to the cost of Indian manufactures, inasmuch as similar conditions do not prevail in both the countries and sometimes the foreign costs are distorted by fluctuations in exchange and methods of presentation of the accounts. Nor is it always possible to base the indication of the future course of prices on the basis of current import prices. The concept of fair selling price as adopted by the Tariff Board which considered not only the present fair selling prices but also tried to estimate the future fair selling prices was worked out on the basis of a representative firm and not on the actual cost of production of any particular firm. Normally in arriving at reasonable cost of production the Board took into consideration various elements in the cost of production, such as working costs, overhead charges and the manufacturer's profit and the possible economies that were available to the factory which had the advantages of suitable location as well as efficient management. However scientific the nature of the attempt may

be, the calculations regarding the future are more or less likely to be tentative and approximate in character. There is another aspect, *viz.*, the element of revenue duties in the cost of raw materials and machinery imported by various industries which tend to inflate prices. It is submitted that while the same method may be applied in arriving at the necessary measure of protection based on the calculation of costs, due regard must be given to certain special factors, such as high cost for capital goods and equipment during war and post-war periods and the replacement costs of the same. The object underlying the procedure as to arrive at the minimum rate of protection necessary for safeguarding the industry, but the Board must also take into consideration a long term view and must see that protection is adequate enough to attract capital to the industry, maintain it at an up-to-date level of efficiency and promote utilisation of the natural resources of the country. Protection should not merely aim at preserving the industry over a period of years, but must also seem to provide sufficient incentives to the industry to improve its technique and working conditions with a view to maximising the output and consequently lowering the cost of production.

Questions 46 *and* 47.—When tariffs are imposed with a view to protecting industries, they assume various forms, such as (i) *ad valorem,* (ii) specific and (iii) compound. An *ad valorem* duty is based essentially upon the value of the commodity imported and is expressed in terms of a fixed percentage of the value per unit. The specific duty is a definite sum charged upon each weight or measure of the commodity imported. In mixed duties the practice is to adopt either an alternative duty, *i.e.,* a specific rate or an *ad valorem* rate, whichever be higher, or a compound duty, *i.e.,* a specific rate and an *ad valorem* rate both together. It is submitted that tariff valuation which is assessed by means of a special combination of specific and *ad valorem* duties is specially advantageous, and the desirability of extending the same may be considered, particularly as a protective measure this system safeguards the interests of both the producer and the consumer during periods of price fluctuations.

Question 48.—The system of tariff quotas is looked upon as an intermediate stage between the system of protective tariffs and import quotas. It is expected in course of time to pave the way for a return to ordinary tariff. To the extent that it does not prevent the flow of goods as under the system of absolute quotas, it is less restrictive and moderate in its effects. As to its utility, it can be used with advantage during comparatively normal conditions as a protective measure to safeguard the interests of domestic industries without any serious restrictive influence on international trade.

Question 49.—The protection granted to an industry should extend for a reasonable period so as to afford sufficient scope for the development and expansion of the industry. It is recommended that protection in the first instance should be granted at least for a period of five years and further extension must be subject to a review by the Tariff Board.

Question 50.—The existing system of revenue tariff classification needs a thorough revision. The appointment of a small expert or technical Committee to go into this question is suggested. This Committee should after securing the necessary particulars regarding the materials or products used by industries in the various processes, prepare a suitable method of classifying them.

Question 51.—In the context and terms of the Industrial Policy of Government as declared in April 1948, the fundamental objective of the long term fiscal policy should be not merely to serve as an instrument of achieving the aims of the above Industrial Policy but should be broad based and comprehensive to form an integral part of our larger economic policy. The larger economic policy of the country has for its ultimate objective the increase of national wealth by the maximum exploitation of the country's resources in industry, agriculture and manpower and the maintenance of a high and stable level of employment. In short, it should, through appropriate tariff measures and other methods of direct assistance, prevent unfair competition, promote the full utilisation of the country's resources and safeguard and protect the growth of industries. Secondly, having regard to the future structure of our foreign trade, the long term fiscal policy should aim at expanding our exports and imports

along the altered course of trade noticed during the war period and also to diversify trade along new channels and to new markets. As to the objectives of the fiscal policy in relation to the anticipations on the course of international trade, it is necessary to stress that the Havana Charter on Trade and Employment and the obligations imposed under the Charter are likely to stand in the way of the development programmes of under-developed countries like India and the formulation of a full-fledged fiscal policy, including the adoption of non-fiscal measures, calculated to bring about a rapid industrialisation of the country.

Question 52.—My Committee are emphatically of the view that at no stage either in the process of implementing their industrial policy or in facilitating the objectives of their fiscal policy is it necessary for Government or quasi-Government institutions to participate in foreign trade, either in the short period or in the long run. The two issues of State participation in industry and State participation in trade are entirely different and the latter need not at all arise out of a policy of State control and management or protection awarded to an industry or industries. Arguments are often advanced to infer an implicit necessity for the State to encroach upon the normal sphere of trading activities from the bilateral commitments entered into between India and certain foreign countries as well as the development and growth of industries under our industrial policy. Apart from the fundamental defects in a system of State trading it runs counter to the very basic principles of freedom of trade inherent in the national economy of a democratic country. The necessary incentive to that degree of initiative and efficiency upon which progress is built up in business undertakings will be lacking in any organisation of trade set up by the State. Even from the point of view of practical results, with the lack of necessary knowledge and traditional experience, it is doubtful whether a State organization can facilitate the main objective of the fiscal policy, *viz.*, the growth and development of industries. The result of Government participation in the trade of certain essential articles has already involved the country in heavy loss. My Committee, therefore, see no need or justification for the State entering the sphere of trade and are opposed to State trading in any shape or form.

Question 53.—In view of the answers to the previous question, an answer to this question does not arise.

Questions 54 *and* 55.—The non-fiscal measures which Government should adopt for implementation and furtherance of a comprehensive policy of industrial development may be briefly stated as under :—supply of essential industrial raw materials, plant and machinery ; cheap fuel and power ; cheap, adequate and quick transport for the movement of raw, semi-processed and finished products ; technical personnel of different grades ; technical information about industrial methods and processes, and industrial finance and such other concessions and facilities as may help the rapid industrial development of the country.

Questions 56 *and* 57.—In order to establish the necessary co-operation between industry and trade and Government and to provide for the orderly supply of the facilities of the non-fiscal nature, the constitution of an Active Committee consisting of representatives of the Ministries of Industries and Commerce and accredited non-official representatives of trade, commerce and industry is suggested. The trade and industry can represent to this Committee their particular needs and requirements and the assistance which they may seek from time to time in respect of them. This Committee can also act as a Central organisation maintaining a close liaison between the industries on the one hand and Government on the other.

Questions 58 *and* 59.—It is not possible to review the effects of the working of the Imperial Preference on Indian trade and industry, as there are more than two opinions on the subject. Imperial Preference in the context in which it was first applied to our tariff system was not popular, inasmuch as its application has adversely affected our trade and industry. The question now to be

considered will be whether it should be abandoned altogether or whether the principle as such should be accepted and provision made for the application of the same wherever it is found to yield beneficial results in the process of expansion of our trade and development of industry. In other words, the principle of Preference should be judged on its merits and the uses to which it can be advantageously put in the formative period of our industries. The retention of the freedom of having a preferential tariff wherever it is found necessary is desirable, and preferences given in respect of any commodities should be judged separately on individual merits of the case and the same should be negotiated on a reciprocal and mutually advantageous basis.

Questions 60 *to* 63.—It is not feasible to examine the effects of the preferences granted and received by India and (a) expansion of trade, (b) customs revenues, and (c) price levels of preferred commodities in view of the paucity of necessary statistical data and the fact that the agreements have been entered into only recently. It is only when normal conditions are established in the internal economy of the countries and the flow of trade is determined by peace time economic factors that it would be profitable to correctly evaluate the effects of preferences to know the advantages or disadvantages thereof.

Question 64.—Preferences are not likely to confer any bargaining strength on India *vis-a-vis* the United Kingdom and Commonwealth countries. They can confer only certain mutual economic advantages dictated by the relative importance of the commodities or articles on which they would like to exchange preferences. In respect of non-Commonwealth countries the existence of preferences with the United Kingdom may possibly reduce our bargaining strength if there are commodities with them which India is badly in need of or would like to import in large quantities.

Question 65.—The desirability of continuing the existing preferences between India and U. K., India and the other Dominions and India and other British territories will largely depend on the advantages or disadvantages derived from the same. Inasmuch as preferences in general with U. K. or Commonwealth countries are likely to reduce our bargaining strength with non-Commonwealth countries, they should be continued only to the extent that they do not seriously affect our trade with other countries outside the Commonwealth. They should be subject to periodical revision and modification.

Question 66.—(a) It is generally recognised that industries receiving protection or assistance from Government owe certain reciprocal obligations to the community as a whole, inasmuch as the latter undertakes willingly to accept the burdens consequent upon the protection granted to industries. Such industries must therefore seek to achieve substantial progress by reducing costs resulting from the application of research in the technique of production, expansion in the size of operations and such other factors which contribute to economies in the process of manufacture. They have also a general obligation to other ancillary industries and services.

(b) (i) The regulation of price policy and price structure of an industry is an extremely complex mechanism and under normal circumstances no attempt should be made to interfere with the price structure of an industry, as it is determined by factors affecting general price level as also price levels of other industries which are related to the protected industry.

(ii) With the progressive development of industries, there should be a gradual improvement in the living conditions of labour and in their welfare. Recent Government legislation amply provides for such an improvement, and since these legislative measures will apply to the whole field of industries, no special legislation is necessary for safeguarding interests of labour in protected industries.

(iii) and (iv) This has been dealt with in answers to questions 54 and 55.

(v) Protected industries should undertake the training of apprentices and Government scholars and stipendiaries to the extent to which there is scope and capacity for the same.

Question 67.—The formation of monopolistic combines which are likely to pursue policies resulting in the adoption of restrictive practices in regard to production, distribution of prices, methods which are likely to prove harmful to the interests of the community as a whole should necessarily be discouraged. The formation of associations which are not intended to be monopolistic in character but have the primary object of regulating sales and distribution in a cheap and economic manner should, however, be permissible.

Question 68.—The financial structure of the industries under protection must admittedly be based on sound lines, and since the same is likely to be considered by the Tariff Board while examining the cases of industries seeking protection, it is not necessary to lay down specific conditions regarding it.

Question 69.—It is not necessary to make any special arrangement for the control of quality of the products of the protected industries, as the Indian Standards Institution is understood to be functioning to attain the same objective.

Question 70.—The obligations should not be embodied in relative statutes dealing with protected or assisted industries. This should be left to be prescribed by the tariff making machinery on an *ad hoc* basis in each individual case of industry seeking protection or assistance.

Question 71.—No special administrative machinery is necessary for implementing the obligations of protected and assisted industries. This function should be entrusted to the special wing of the tariff making machinery.

Question 72-77.—The existing administrative organisation will not be adequate to deal with the problems of implementation that may arise out of Government's acceptance of a comprehensive policy as regards (i) fiscal measures, and (ii) non-fiscal measures. The fiscal, commercial and industrial aspects of every proposal will not only require the most careful scrutiny and examination, but may also necessitate technical inquiries in a number of cases. This aspect should be entrusted to an independent authoritative body like a statutory Tariff Board which alone can take a broad and comprehensive view of the economic development of the country as a whole and recommend for the implementation of such fiscal and non-fiscal measures as are likely to achieve the objective of balanced industrial development. This naturally implies that the scope and functions of the Tariff Board will have to be considerably enlarged and suitable organisational changes will have to be effected for the purpose. The supreme need of the hour is not the appointment of Committees or Commissions but the implementation of the programme of industrialisation and execution of the plans already formulated under the same. As to the suggestion that a comprehensive organisation of the nature of a Trade and Industrial Planning Commission sub-divided into suitable branches to deal with planning and execution of various measures relating to tariffs, other fiscal measures and non-fiscal measures, be set up for the purpose, my Committee are of the opinion that while the function of planning may be entrusted to the Trade and Industrial Planning Commission, if and when such a body is deemed necessary, the function of implementing the fiscal policy should be entrusted to a specialised organisation like the statutory Tariff Board. It is also suggested that a technical organisation comprising of different sections pertaining to technical operations, specialised investigations in respect of the conditions of industries, trade and commerce, various aspects of tariffs and maintenance of relevant statistics, and costs accounts, should be attached to the Tariff Board, to assist it at every stage of its work.

Question 78.—(i) The Tariff Board should be both permanent and statutory with its powers and functions clearly defined. A statutory position for the Tariff Board will not only confer on it high standing, but will also attract competent men of ability and integrity to serve on the Board. In addition, a permanent statutory Board will ensure consistency and continuity of policy and make for efficient and speedy despatch of work, as compared to the *ad hoc* boards, which were appointed from time to time for investigating the claims of industries for protection.

(ii) The members of the Tariff Board should be men of ability, of integrity and of impartiality, other desirable qualifications being a knowledge of economics and a practical acquaintance with business affairs. The Board should

consist of a Chairman and a minimum of 5 members, the tenure of office being ordinarily five years, members being removable either for incapacity, misbehaviour or an act of moral turpitude. The Board should also have two representatives of trade, commerce and industry as assessors. While Government officers may not be excluded from holding office on the Board it should be ensured that two-thirds of the members should be independent officials.

Question 79.—The Tariff Board should be one with sufficiently wide power so as to be able to undertake investigations on its own initiative, under certain, circumstances and even review the progress of protected industries from time to time. While the Board should be mainly an advisory body in character and the powers of final decision should naturally rest in Government, the range of powers and functions entrusted to it should be wide and comprehensive. It may be observed that the recommendations made by the Indian Fiscal Commission in 1921-22 as to the appropriate functions of the Tariff Board did not merely confine themselves to the investigations of the claims of tariff protection as determined by the triple formula, but included a large number of other functions, such as reporting the effects of excise duties on Indian industries, studying the effects of tariff policy on the cost of living, besides enquiries into allegations of dumping and complaints of discriminatory treatment in foreign countries and recommending assistance to key industries essential for national defence. The functions to be entrusted to the Board should cover those prescribed by the Fiscal Commission of 1921-22 and those assigned to the interim as well as the reconstituted Tariff Boards of 1945 and 1947.

Question 80.—While the functions of the present Indian Tariff Board, as laid down from time to time since November 1945 may be deemed to be adequate for the limited purpose for which they are intended, they do not cover the whole range of functions which a permanent statutory Tariff Board must perform for the implementation of the country's long term fiscal policy. It is true that some additional functions have been assigned to the present body, but the present machinery is intended to be an interim body primarily concerned with the question of war time industries.

Question 81.—The institution of a technical organisation to assist the Board will greatly facilitate the work of the Tariff Board and will be conductive to a more efficient discharge of its duties.

Question 82.—The present procedure must be liberalised and the Tariff Board besides considering the case of applicant industries must have the necessary authority to investigate the cases of such industries, as are essential to the national economy and deserve to be developed and recommended ways and means, including protective measures, deemed necessary for the purpose.

Question 83.—Observations made in question 82 should also apply to small and unorganised industries.

Question 84.—The Tariff Board should be fully authorised to initiate inquiries or receive applications for protection, without the same being first submitted to Government for its prior approval as to whether a *prima facie* case had been made out by the industry or not.

Question 85.—The inquiries by the Tariff Board should be completed as expeditiously as possible, and Government must adopt the convention that their decision on the Board's recommendation should be notified to the public within a period of two months of the submission of the Report.

Question 86.—No observations to make.

Question 87.—The recommendations embodied in the Report of the Tariff Board in respect of any industry or problem having been made after an elaborate and impartial inquiry by a competent body should be normally accepted by Government. In case, Government have strong reasons for rejecting the recommendations of the Board, the same should be published.

Question 88.—(a) Yes.

(b) Yes. Since the post-war fiscal policy may have to be modified to suit the changing conditions, it is not advisable to embody the general principles governing tariff policy, the general procedure to be followed in tariff inquiries and the manner of enforcement of the obligations of protected or assisted industries in the Act constituting the Board.

(c) This is covered by the answer to (b) above.

Question No. 89.—The basic aim underlying the Havana Charter is the attainment of high standard of living, full employment and conditions of economic and social progress. India will for some years to come have to increasingly depend on industrially advanced countries for the supply of capital goods and technical personnel, and in spite of the large domestic market and plentiful natural resources the pattern of our export trade will have to be developed on a multilateral basis. This being so, we are naturally interested in promoting expansion of world trade. Our own schemes of expansion and economic development will have to largely depend upon international co-operation and maintenance of high level of employment and activity in other parts of the world. Viewed from this angle, my Committee approve the basic purpose and objectives underlying the Havana Charter on Trade and Employment.

Questions 90 *and* 91.—My Committee are given to understand that this Chapter on Economic Development and Reconstruction was specially incorporated at the instance of industrially backward and other under-developed countries. It is pertinent to observe that the articles under the Charter recognise only in a partial and qualified manner the special needs and requirements of underdeveloped countries. While the right to utilise particular measures for promotion of economic development is recognised, the clause requiring the prior approval of the I. T. O. for imposing certain protective measures is retained. It would have been more appropriate if the right of the industrially backward and under-developed countries to utilise protective measures such as quantitative restrictions were fully recognised in the Charter, subject, however, to a subsequent review by the I.T.O.

Question 92.—Encouragement of international flow of capital for productive investment is now incorporated among the purpose and objective of the I.T.O. Government's declared policy in regard to the position of foreign capital in India specifies the terms and conditions which are not only in full accord with the requirements laid down in the Charter but go a little beyond. Generally speaking, the provisions in the Charter with the necessary safeguards fairly meet with the requirements of India in respect of foreign investments. It should, however, be ensured that India will not be precluded from extending or confining direct governmental assistance in the form of protective measures to industries the ownership of which is preponderatingly in national hands.

Question 93.—*Commercial Policy.*—An analysis of the various aspects of the Commercial Policy as embodied in the Charter reveals that the Charter has failed to show an adequate appreciation of the point of view of the underdeveloped countries. Although it is true that several exceptions and reservations have been made in respect of various important sections relating to Commercial Policy, it is necessary to observe that the same have been largely inspired with a view to safeguarding the interests of the industrially advanced countries. Instead of conceding the right of industrially backward countries to resort to a legitimate use of tariffs, quantitative restrictions, subsidies, etc. solely for protective purposes, as a means of bringing about rapid industrial development in these areas,. the same has been hedged in by several conditions and limitations including the clause requiring prior approval of the I.T.O. However simplified, the procedure regarding prior approval of the I.T.O. may be, it does involve an unwarranted external interference with the competency of a country like India to protect her own industries by suitable measures. In the case of agrarian countries which have the task of evolving balanced economies with a view to raising the depressed standard of living of their peoples, these limitations are likely to act in an obstructive manner. As the provisions of the Charter stand at present, it is extremely doubtful whether India can freely resort to various protective measures such as quantitative controls, tariffs and subsidies. It must be remembered that these are not made with a

view to limiting volume of trade nor for discriminatory purposes, but solely for expanding production and employment at home in order to raise the living standards of the people, an objective which is in consonance with the declared object and purposes of the Charter.

Questions 94 *and* 95 : *Tariffs and Preferences.*—The Charter requires each member of the I.T.O., upon request from other member or members to enter into and carry out negotiations directed to substantial reduction of the general level of tariffs and other charges on imports and exports and to the elimination of Preferences on a reciprocal and mutually advantageous basis. From the point of view of India, in view of the fact that the protective duties are few in number and the general level of the same being moderate, there exists comparatively little scope for tariff reductions. There is, however, sufficient scope for reductions of tariffs and elimination of preferences on the part of leading trading nations of the world. For this reason, it is maintained that it would be manifestly unjust to expect industrially backward countries to offer reductions in tariffs. It is also necessary to draw a clear distinction between tariffs imposed for restricting trade and manipulating balance of payments position and protective tariffs intended for developing of domestic production and increasing employment.

Quantitative restrictions.—The Havana Charter requires general elimination of quantitative restrictions as a principle under special circumstances and subject to certain exemptions. It is felt that India will be entitled to avail herself of the above exceptions during the period of her present un-balance in trade and critical balance of payments position. All the same, it would seem that the use of quantitative restrictions as an important normal protective measure is ruled out by the Charter which does not appear to be justified. If India is to proceed with her plan of industrialisation, quantitative restrictions will become necessary. In this view of the case, it is urged that necessary provisions should have been included in the Charter so as to enable backward countries to use quantitative restrictions as a protective measure to develop or establish industries which would otherwise be exposed to special difficulties.

Subsidies.—While my Committee generally welcome the provisions in relation to subsidies inasmuch as they provide sufficient safeguard against dumping and other forms of unfair competition they hold the view that the Havana Charter does not accord full recognition to the important role which subsidies can play in industrially backward and under-developed countries as a method of giving protection. My Committee strongly feel that though an industrially backward country may not be able to make an extensive use of bounties or subsidies, the use of subsidies for protective purposes must be definitely recognised.

In the opinion of my Committee the major defects in the various articles under Commercial Policy are not likely to harm our trade or industry in the short period inasmuch as sufficient exceptions and reservations have been provided in the Charter whereby industries established between 1939 and 1948 can be protected as well as release from the various obligations can be obtained during balance of payments difficulties. However, it is feared that from a long term point of view the provisions regarding Commercial Policy are likely to impose restrictions on our freedom to utilise suitable measures of protection necessary for bringing about a rapid industrialisation of the country.

Questions 96, 97 *and* 98.—Have already been dealt with.

Question 99.—My Committee are in agreement with the general objectives underlying the General Agreement on Tariffs and Trade. As regards the provisions relating to Commercial Policy, they do not fully meet with the needs and requirements of an under-developed country like India.

Question 100.—It is submitted that a proper evaluation of the General Agreement on Tariffs and Trade should be made having regard to the altered conditions and the consequent effect on the composition of our foreign trade.

Questions 101 *and* 102.—Since the concessions reciprocally granted and received are in operation only over a short period, it is not possible to have a proper evaluation which can be made only sometime in 1950.

Question 103.—The spirit in which the contracting parties are working the provisions of the agreement can only be judged after watching the experience and result of the working of the same over a reasonable period of time.

Question 104.—A decision may be deferred till the latter half of 1950 when the relative advantages can be examined in a proper perspective.

As regards the question of the attitude of India to the Havana Charter, it is suggested that the Fiscal Commission should give due consideration to the feasibility of recommending to Government the desirability of postponing a definite decision for a period of about one year, particularly in view of the fact that the country is passing through a transitional period.

In conclusion, I am to express the hope that the views of my Committee on the various issues arising out of the questionnaire will receive due and careful consideration of the Commission.

THE INDIAN NATIONAL TRADE UNION CONGRESS

Need for overhauling fiscal policy

It would be a platitude to say that fiscal policy is an important instrument in shaping the industrial and financial organisation and activity of a nation, both on a short-range and long-range basis.

It, again, would be a repetition of the commonplace knowledge to say that this instrument was utilised in this country by the former alien rulers naturally for their own ends and to suit their own interests.

The need therefore to scrutinise, re-orient and overhaul the whole of fiscal policy and programme thereunder is equally obvious. What is more, it is acute and long overdue.

Consideration of future policy more important

As indicated by the categorical and clear statement made above, we attach more importance to a consideration of the basis of the policy and its application in future, rather than to an examination of the defaults and defects, in the matter in the past.

Setting of Socio-economic objectives : Basis of our approach

Concentrating accordingly our attention on this main theme of the subject, it will naturally be necessary in the first instance to set down broad and basic outlines of our national economy as we desire to and can evolve it, both on a short-range and long-range basis, keeping in view all the relevant and salient features of the socio-economic make-up of our country and its potentialities.

To us the following points seem to be clear in this connection :—

1. Our national economy must be developed on a self-sufficiency basis : Self-sufficiency in respect of at least the vital needs should be attained region-wise and an overall self-sufficiency ought to be reached on the national basis.

2. Mixed Farming and in most places Handloom Industry will thus be the universal bulwork of our national economy; while each region will have its special cottage industry or industries besides. This is true on a permanent basis for this country and is the more so specially in regard to the immediate and interim period during which any speedy and material progress with industrialisation involving huge fixed capital expenditure seems to be beset with several difficulties.

3. Basic and large-scale industries will be developed on a national basis, *i.e.*, such as may be indicated by the maximum combination of favourable factors. Priorities will have necessarily to be fixed very carefully in this connection.

4. Auxiliary and multipurpose schemes like those for Transport and Hydro-electric power development also must necessarily find their appropriate place and fit in well with the above.

5. Equally important an aspect of our Socio-economy is that pertaining to Distribution; and in this connection the I.N.T.U.C. has categorically demanded that all individual incomes should be brought within a range of Rs. 100 to 1,200.

Our present difficulties

The above seem to be feasible objectives for our national economy. Looking to the present state of affairs, however, it appears as if we shall have to start from scratch. For our economic condition—today is quite unsatisfactory indeed. We are forced to import large quantities of food-grains to feed our millions even on the existing under-nutrition level. The production of raw materials for our main industries like cotton, jute and sugar is materially short of our requirement. The organisation and efficiency of such industries as we have, leave much to be desired, and there is an universal complaint that they

are really in a bad way. The transport system is still strained and inadequate, though latterly some improvement is noticeable. Trade and commerce seem unfortunately to be only making matters worse, with every conceivable malpractice appearing at some point or the other for narrow selfish interests of a few. Capital is made "Shy" and as it were a full blown conspiracy is gaining ground to thwart all attempts at rehabilitating our national economy and securing a steady, even if slow, rise in the standard of living of the people.

It is needless to dilate on this point. For already there is in this connection any amount of laments and exhortations forthcoming from all sorts of people and many quarters. We have instead to point out to the obvious and already amply proved futility of such laments and exhortations, and to the essential need, which this hard experience itself has demonstrated, of well planned and co-ordinated efforts, of concrete efforts.

Need for Planning

Let it be clear, therefore, that we attach a great deal of importance to planning in the sphere of our national economy. This is conspicuous by its absence; and a very heavy penalty for the default has to be borne by the people of our country today. The first and preliminary requisite, therefore, is to decide to and accordingly embark upon planned economy. It may be clarified that this would be quite consistent with the policy of controlled and mixed economy which our Government seem to have decided upon. It may further be asserted that the poor results so far accruing from this otherwise sound policy, can in fact and mainly be traced to the weakness in respect of planning for developing our National Economy on an integrated basis, which thus would appear to be the necessary background and a *sine qua non* for success of any particular government policy or measure in the sphere.

Fiscal policy too must likewise form a part of and fit in well with such an integrated plan for development and pattern of the nation's economy.

It may be clear at this stage that the basic plan may be a rather broad and general framework; but it must be well-conceived and, what is equally important, well-understood not only by those directly concerned, but, in its essentials, also by our people at large, so that everybody knows where he stands and what he is expected to do in the whole setting.

For this purpose, as also for the purpose of unity and continuity so essential, if speedy and material results are to accrue, the plan must be adopted as a stable and uniform basis for some length of time.

Fiscal Policy must be an organic part of the integrated plan

Vis-a-vis these considerations, it is submitted that our fiscal policy and the machinery thereunder must not be mere piecemeal and *ad hoc* adjuncts of our administration of public finance; but they must be developed into a permanent and organic part of the comprehensive and integrated plan as indicated above.

It is needless to add that the organisation must include a well-equipped statistics, information and Research Section which should carry detailed and careful investigations into the condition, working and prospects of the various industries and their respective place in the country's economy.

At the top, the Board itself should have about 5 members of unimpeachable integrity and with a background of long and meritorious service in the sphere of socio-economic affairs.

The Board should be free to take the initiative in covering any particular existing or new industry within its purview.

Its recommendations should be considered by the National Planning Commission, which, it should be clear from our foregoing remarks regarding planning, must be appointed at the earliest.

The decisions of the National Planning Commission should generally be adopted by the Government.

The need and possibility of immediate action

Here a pertinent question is raised. It is this, that inasmuch as the whole matter, in its contents and by its very nature, is not merely economic but also socio-political, would it be feasible for the present Government to set to work about it on the lines suggested above, before the country gives a clear indication of its mind in the forthcoming general elections?

Our unhesitating and only answer to this question is in the affirmative. This is for two reasons. Firstly there is the clear and inevitable need for such action, without which we shall be facing something like a complete disintegration of our socio-economic fabric. Secondly, we believe such action to be quite appropriate and possible for the present Government to undertake. The plan put forward by the Economic Programme Committee set up by the All India Congress Committee, can well serve as a broad basis for such action, for it may be noted that the plan is subscribed to not only by the Congress High Command but also by the leader of the present opposition party of Socialist.

Warning against Doctrinnaire or Dogmatic approach

A note of warning must however be sounded here against any merely doctrinnaire or dogmatic approach, which unfortunately is seen to be the destiny generally of all the enthusiasm over planning in evidence these days. Bigotism and fanaticism, in any form or degree, are harmful in everything that affects the welfare and progress of the community; but in the socio-economic sphere their effects are almost disastrous, at any rate in the long run. It may sound commonplace; but alas: the need to emphasise it does exist, that economics do not lend themselves to any arbitrary cut and dry theories or formulæ. Even so, we generally find persons that matter in this sphere are only too prone to submit to the obsolete pattern of economic thought left over by the former ruling race.

It must be admitted also that there is visible equally unrealistic a reaction in the quarters at the opposite end.

And the sum total of the whole situation is confusion.

Greater initiative, alertness and steady efforts needed

The haze has to be patiently and carefully cleared and the way to progress has to be found out with the aid of landmarks which really exist and are not a mere make-believe.

In this way there may be no great chance of very speedy and impressionable achievement. Yet for peaceful and lasting progress, which clearly is our objective, no other course seems to be better or even possible.

But let it be realised that this seemingly modest course calls for alertness and unceasing and systematic efforts. In fact it calls for greater initiative and toil because it is a course which has concrete performance and not a mere utopia for its objective. It must be admitted that this alertness, initiative and effort are to-day very much lacking in all concerned.

Thus it is that we have to begin, as it were, from scratch.

Conclusion

In these circumstances, a simple, practical and a short-term rather than a long-term plan, which can directly and comparatively easily be evolved from a realistic appraisal of our more pressing needs and potential resources to meet them, a plan which can thus be readily conceived, explained, understood and consequently implemented is our preliminary necessity.

This plan then should be the basis for the unified national activity, second in importance, if such comparisons there could be, only to our Constitution.

Examining various aspects

All this is said in unfortunately unavoidable general terms. Let us however try to be as specifically clear about the subject as we possibly can.

In this, we shall follow the natural sequence, as we have done when enlisting at the beginning, the 5 basic points for developing our national economy. Let it be clear, however, that the sequence does not indicate that in order of importance or time the next item is secondary or is only to follow the first. Such differentiation would be arbitrary; and in fact there would have to be simultaneous and alround drive involving a minimum programme in each of the important sectors, which must be co-ordinated *inter se.*

Agriculture—Effects of partition

Let us, then, take Agriculture in the first instance. The most important fact to be kept in view as the background while considering for our immediate purpose this part of the subject specially, is the dislocation caused by partition and subsequent non-co-operative attitude of Pakistan. There have of course been some pleasant expressions of goodwill and all that from both sides, especially from our; but these have proved to be merely pious utterances befitting ceremonial occasions. When they were anything more and really sincere, their contents and spirit were too sublime for the millions on either side of the wall to follow. This real position irrational and unfortunate though it be, has to be understood and accepted by us.

To meet it adequately we must put forth all our determination, discretion and endeavour; for the task is indeed extremely difficult. In brief it is this that we shall have to make good within a couple of years at the most, all our deficit in food-grain, cotton and raw jute.

The problem of attaining self-sufficiency in regard to food-grain is doubly difficult because a material portion of the present acreage will have to be diverted to cultivation of cotton and jute. The loss of the rice-growing land, which will grow jute instead, will be particularly heavier because on rice the land feeds more mouths than an any other food-grain.

It will be noticed, all the same, that we take this shift in production from that of food-grain to cotton and jute for granted. We see no alternative and the reasons for this are obvious to need special mention.

Suggestions

The following measures are indicated in the circumstances :—

1. Utilization of all the cultivable land.
2. Increasing yield thereon, by

   (A) Supplying incentive to the cultivator by adopting a much more radical reform of land tenure systems than any which have so far been adopted and which have more or less failed to create necessary material conditions, not to speak of a proper psychological background for such incentive.

   (B) Introducing an element of healthy—compulsion in the form of laws for Agriculture, such as the one that was proposed—and unfortunately dropped ultimately in Madras, which would give powers to Government to issue directives for regional control, co-ordination and improvement of agriculture.

   (C) Concentrating the activity of the Agriculture Departments and all the possible non-official agencies on the minimum, simple and provenly effective essentials in respect of the region concerned like the standard rotation of crops, only the best obtainable seed or strain, the most suitable instrument and system of tilling and so on.

   (D) Developing initiative and collective action in the rural people : while each one cultivates his own field, all must be made conscious of the need for attacking their common problems together and must be held in collective action to combat erosion, water supply, sanitation and similar problems.

(E) Supporting the progress by supplementary measures both on voluntary basis and, when necessary, by compulsion, as in regard to prevention of anti-social and wasteful customs, etc.

Two related problems

Even when all this is done it will be necessary to make their results attained go a longer way than at present; and in this connection two most important and serious considerations at once arise.

Population

The first is the one regarding our population problem. It is surprising, and when contrasted against its far-reaching and grave implications, it is disturbing to find how little attention is being given to this aspect of our socio-economy. In fact it is a subject by itself. We can however only make a brief but clear statement here that those responsible to lead and govern this country must at once take a realistic view of the whole question and see to it that we immediately begin tackling it on the lines suggested below :—

A. Sterilising the whole of our beggar classes, which should not be too difficult considering the tendency of the beggars to concentrate only in our cities and towns.

B. Raising marriageable age limits.

C. Social enlightenment and uplift.

Balanced Diet

The other problem is of correct nutrition. It is admitted that the diet, even on available food articles, can be very much improved upon, so as to bring both economy and better health. Very little is being done in this direction. This omission too must be made good by popularising balanced diets evolved as nearly as possible to the current diet of the respective regions.

Agriculture as feeding Industry and Trade

Coming next to the point, where Agriculture feeds the Industry and Trade of the Country it will be realised that not only out of our immediate necessity and as an expediency, but in fact from the point of fundamental policy and permanent results also, our agriculture must be put on a footing. If, therefore, some of our ambitious Industrial Schemes have to be postponed for the time being, let us not be disheartened but let full effort be devoted to toning up our Agriculture, which will thus serve a sound basis for the rest of our socio-economy.

A few suggestions, which we consider important have already been put forward in this connection. They pertain mostly to measures for improving and increasing our Agricultural production. It will, however, be necessary to regulate the kind of produce also, in accordance with our needs of our internal consumption and external trade.

Apart from direct control measures to secure this object, Tariff Policy also will have to be employed towards this end.

To begin with, then, there cannot be allowed exports of any produce which could be utilised to make good our national deficiency in food on a balanced diet basis.

Only second in order of degree but of the same kind of importance is the case of produce of raw materials for our Industries.

From the point of our Trade, possibilities of converting our primary produce into manufactured or semi-manufactured articles, preferably through Cottage industries, must be fully explored and the Tariff schedule modified accordingly. Thus it would be advantageous obviously to the country to export Oil, Tanned Leather, Bone meal etc. in place of Oil-seeds, hides and bones respectively.

Apart from Tariff measures, it will be equally necessary to improve and standardise quality of the export commodities, to minimise scope for and regulate activities of middlemen, and to discourage speculation. To secure this, there must be the closest of co-operation and co-ordination in the working of the Departments concerned.

All these measures will together have definite beneficial results on our Agriculture which will then serve as a sound foundation for the whole of our economic activities.

Cottage Industries

Next, we have to consider the question of productive occupations allied with Agriculture and Cottage Industries.

The first thing that we have to stress in this connection is the need to change our conservative and predominantly agronomical pattern of farming into what is called mixed farming. Thus, every possibility of irrigation, even that on a localised and modest scale, must be fully exploited. Horticulture must be encouraged, and dairy also must become a necessary adjunct of each farm, though of course, varying in size, with the same.

We think it necessary to point out in this connection that the impression often gathered and expressed rather easy goingly, that our cultivator has in him all the experience and wisdom of ages past, cannot in fact be true in all respects and for all the time. At any rate, it must not be allowed to lead us to complacency and inertia; though, of course, we must avoid the other extreme of rejecting wholesale the old pattern and of proposing absurd substitutes.

If we thus approach the whole matter in a realistic manner and with the determination to introduce reform where necessary, we shall succeed, in course of the coming few years, to convert, with material and alround benefit, the present almost solely agronomical farming into mixed farming as suggested above.

This, by itself, would provide larger scope for subsidiary productive occupations in Rural areas.

As to other cottage industries, it is well known how, being left to their own fate, they have come to grief, with consequent disintegration of our traditional pattern of socio-economy. While it may not be possible or even desirable to try to remould that same pattern, it would all the same be necessary, if we desire to attain widespread economic recovery and a general rise in the people's standard of living, to resuscitate our cottage industries on a well considered plan.

Sphere

In this connection, it would be necessary, in the first instance to demarcate as nearly as possible the sphere of the cottage industry from that of the large scale manufacturing industry.

Thus the sphere of arts and handicrafts is distinctly their own. When we come to think of it, we realise how little attention has been given in this direction, even though potentialities seem to be almost unlimited there. It will be the duty of the Government, therefore, to pick up all the remaining or developing elements in this sphere and offer them every encouragement and necessary help by measures like training facilities, loans, advertisements and sales services etc. The products may form particularly important an item for our export trade; and as such it would be in our interest not only to give them protective treatment within the country, but also to popularise them outside by an intense propaganda drive.

Coming next to the sphere of cottage industries *vis a vis* large-scale manufacture we would suggest that the latter should be made to serve, as far as possible, our cottage industries and competition between the two should be particularly avoided. Thus the cottage industry of leather goods could

be served by the large scale industry of leather tanning in the form of supplying cheap and well tanned leather. Similarly, Textile Mills could be made to serve the handloom weaving industry and the competition between the two could be avoided considerably by concentrating the spinning process, as far as possible, in the mills and restricting their weaving to counts above, say, 20's.

As a broad and obvious principle, all those industries which involve simple processes and which are linked directly either to the primary agricultural produce on the one hand or to the consumers on the other are generally fit to be conducted as cottage industries. in the first instance in the rural areas and in the latter, in the urban areas also.

Scope

It would be easy to enlist quite a large number of cottage industries falling in line with this principle. But it would not be much worthwhile to do so. It would, instead, be preferable, from the point of securing tangible results, to select carefully a limited number only of such industries as will be most suitable to the region concerned and manageable so far as the part which the Government and other institutional agencies have to play in their organisation and development.

Initiative in Organisation

For, let it be clear that this part is of almost determining importance. The individual craftsmen who could work as the pivot of the old cottage industry on family wise basis, cannot by himself get anywhere in the existing setting, where organisation is at least as important as productive skill and labour. In fact it is to be realised that the whole initiative will have to be taken through such appropriate organisations by those who are responsible to lead and govern this country. Such an organisation will have thus to survey and prepare the whole ground, select the lines to be pursued, evolve a definite plan, collect all the requisites for implementing it, and then set the craftsman or worker to his job, while the sale and disposal of the output will again be the task for the organisation.

Machinery

The organisation must of course be so adaptable as to make it progressively the institution entirely of the class which it is meant to serve. From this point, a co-operative institution for each local and industrial area, federated at the district and provincial levels for the purposes of more specialised and effective supervision, co-ordination and control than at present is recommended.

With the agency of such an organisation it should be possible to collect the necessary raw material in the region at the various properly located points of manufacture, to improve and standardise the technique of manufacture, to train personnel, to supply the finance and equipment for the units where necessary and lastly to collect grade, advertise and sell the products. For this purpose there can be specialised subsidiary agencies and organisations as for creating Training facilities and for supplying credit. The main thing is that the agency should be such as can be relied upon and should enjoy full government recognition and adequate support amounting in fact to preferential treatment.

Suggestions

The details can be worked out by a Cottage Industries Board, which should be formed as an important wing of the National Planning Commission. While realising the need for a much closer and careful study of the whole subject at the time, we offer here a few suggestions which we consider to be rather important from the point of developing our cottage industries :—

1. Surveys should be undertaken for exploring the possibilities of developing the various cottage industries in the different regions,

2. Technical education and research work in cottage industries should also be undertaken by the Government. as these Industries are unable to meet any such extra expenditure in their present stage of growth.
3. Subsidies and loans may be given by Provincial Governments.
4. Power should be supplied at concessional rates.
5. Concessional rates should also be given for Transport.
6. Middlemen should be eliminated through Co-operative Societies. The existing law regarding co-operative Societies should be appropriately amended.
7. Products of the Cottage Industries should be standardised.
8. Full publicity to create suitable market within the country and outside should be carried.
9. While drawing Tariff Schedules and Trade agreements with other countries, particular care should be taken to protect the interests of the cottage industries concerned.

We may sum up by expressing our definite and confident opinion that only on strengthening our rural economy by improving agriculture and developing cottage industries, shall we be able to evolve a well balanced and therefore healthy national economy in place of the present lopsided and disjointed pattern.

Role of organised Industry not to be belittled

What we have stated above should not be construed to mean that we attach any the less of importance to development of large scale manufacturing industries and all the other components of a modern and efficient socio-economic system. We have, on the other hand, already stated that it would not be possible, nor would it be desirable, to try to return to the now obsolete pattern based solely on agriculture and allied occupations. Our emphasis on the need for putting these primary factors on a sound basis has, therefore, to be viewed in its correct setting *viz.*, of the necessity of strengthening the very foundation of the whole of our national economy and of securing a well balanced and uniform development in both its rural and urban spheres. The emphasis does not thus imply any belittling of the role which organised industry has to play in our economic reconstruction programmes.

Basic Suggestions

On a careful consideration of this role against the realistic background of our present circumstances, we have to put forward the following three broad suggestions :—

1. We ought by all means and without loss of time ensure that our existing industries are put on a sound and efficient working basis.

2. Government should take the initiative and see to it that basic or key industries are set up one after another as demanded by fundamental needs of economic development of the country and as permitted by all the resources available during the period of the short-term plan, as suggested above.

3. Other projects coming forth on private initiative should be examined carefully but sympathetically and should receive each its due encouraging treatment on the basis of its respective and relative merits.

Shift in Government policy necessary

In respect of the first point, the objective should be to establish and attain definite optimum standards. It is indeed shocking to see how industries, even those which affect our people most vitally, continue to be mismanaged, without as it were, any serious cognisance being taken there of, not to speak of remedying it. In this, we are perpetrating, with suicidal effects, the legacy of the former indifferent Government of "not bothering about it" excepting for certain *ad hoc* calls as those arising, for example, out of a clamour for protection.

It may sound harsh, but the truth must be told that even after all the bitter experience we have been going through, the consciousness that our organised industry is not the family affair of the few but is in fact the concern of the community, is still not developed in our Government to the degree of a living faith necessary for dynamic action.

Let us make it clear that we are not bringing in an argument for nationalisation here. But our point is that the responsibility of taking the initiative and all the necessary and adequate action in pursuance thereof, to insist on the conduct of our industries in the best interests of the community, lies on the Government, and they have to be more alert and active than heretofore if this responsibility is to be properly fulfilled.

It will be necessary for this purpose to undertake careful investigations into the affairs and working of the various industries, beginning with the more important ones in the first instance, and to suggest reforms therein. In fact it will be necessary to keep a rather close and continuous watch over them, with a view to bring them up to the definite optimum standards as proposed above.

The apprehension that such an approach will be treated by the capitalists as too much of an interference in their business, may be real, and may, in the beginning, seem serious also. But as the Government's motive and determination for betterment of the Industry in general interests will, in due course, become self-evident, such misgivings as may initially exist, will gradually be removed. The main thing is that all concerned have to be impressed that there is going to be a definite shift from the attitude of indifference and anarchy to that of an indulgent interests and discipline.—The effect will be quite that desired and almost complete if the discipline is enforced rationally and impartially, as between the capitalists and Labour, for example. Above everything, there must be that solicitude for vital interests of the people involved in the whole show, as will allow no quarters to impediments.

Beneficial results expected

By such an approach important conditions and factors in the working of our organised industry will be gradually but automatically standardised. This would be a very valuable gain, considering the anamolous state of affairs obtaining at present in the form of Cynical variations in respect of even such important items like quality of product, profit-margin etc.

It may be worth while incidentally to point out the significance of these two items, though they have been mentioned merely to illustrate a certain point above.

The factor of quality, then, will be found to have been generally neglected by our producers; and to correct this fault, it will be only too necessary to emphasise the simple fact that industrial development has not merely the quantitative but qualitative aspect also and that this aspect shows itself not merely in the final product but in fact in all the stages leading and related to it.

The question of profit margin is of evidently even greater import. In capitalistic economy it is the driving force behind all its industrial and commercial activity. It is easy to understand therefore the complaint being made of late by our industrial and commercial magnets that there is a slowdown in their activity because the profit margin has dwindled.

But when we think of it more closely, we clearly find that the real thing is not that the profit margin is low, but that it is not uniformly low. We are thus firmly of the opinion that a standardisation of the profit-margin at a level, in fact much lower than any seen to-day, will be quite wholesome not merely for the consumer, but also for the industry as a whole, inasmuch as there would be no promise of greater return for waiting and as such investment would not be held up. Further, we confidently believe that such standardisation could be attained under Government supervision of our industries, conducted in a more indulgent spirit and helpful manner than ever evinced.

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Crying need for Economic Civil Service

This leads us to point out to the virtual absence of what may be called an Economic Civil Service and the crying need to evolve the same. The point is obvious and we do not have to labour at it.

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Need for enabling legislation

In order to be able to work on the lines suggested above, the Government will have to equip themselves with requisite powers for eliciting information regarding and exercising, where necessary and to the essential extent, control on our organised industries. The need has been particularly demonstrated during the past few months when vitally important productive units, many of them sound economically also, closed down for extraneous reasons.

It may be repeated that we are not entering here into any discussion over the question of nationalisation. For we are primarily interested in laying down practical objectives and securing concrete results in respect of their attainment, here and now. As such, we have to lay stress on the inevitability of timely and adequate Govt. action when and any unit or section of an industry or the whole of it is found definitely to misbehave or bungle matters.

Legislation on the lines being proposed at the centre is therefore none too early or too strong a measure. In fact it is to be hoped that even industrialists, worth the name, will only support a policy of allowing them, even with beneficient encouragement, to conduct the affairs of the industry unhampered, so long as they do it efficiently and in general interests; and to intervene effectively, when to the extent it becomes necessary from the same considerations of efficiency and community's interest. It is our definite belief that in cases of mismanagement, intervention by Government would succeed in securing improvement; and there is no need for diffidence or hesitation in taking the logical steps. For, the real job is in fact done by the Technical and Supervisory Staff whose co-operation will not be wanting in the Government's efforts to secure a change for the better. There will of course be the difficulty regarding finance, but we shall deal with it, in brief, later on. We, however, do not advocate such action unless in well-considered and convincing circumstances. In this way, once it is taken and seen through effectively, it is bound to succeed in securing compliance to the standards expected of our industries.

Regarding Basic Industries

Side by side with the care to be devoted, as briefly indicated above, to secure efficient working of our existing industries in the Community's interests, the Government will have to take up the work, on a priority basis, of setting up key or basic industries. For it is mainly to these industries that we must turn for raising the efficiency of our productive system. Iron and Steel plants, Machine Tool manufacturing works, Chemicals and fertilisers producing factories are some of the items which are already being considered and the whole country is eagerly looking forward to the day that the schemes are given effect to and the plants are successfully put into commission. In this respect there is hardly anything to say except this that the policy should be for the Government to take initiative forthright and not to allow the usual red-tapist-methods to hold up progress.

Problem of Technical personnel

In this connection the problem of securing necessary technical personnel may seem to be difficult, but it will have all the same to be tackled. We shall have to invite a few foreign experts in the initial stage, for the rest, we must make full use of our own personnel, which, we are quite confident, will not be found to be inadequate either in strength or calibre. We have, in fact, observed a paradoxial situation in this that while on the one hand there is a clamour about dearth of Technical hands, we find on the other hand considerable unemployment even in this type of personnel. It would therefore seem

both necessary and useful, for assessment of real position and also for the purpose of requisition as and when needed to catalogue properly all over available Technical and specialised personnel through an agency like the various Employment Exchanges and preferably Public Service Commissions.

Other Industries

As regards setting up and for developing other industries, we may rely mostly on private enterprise. There need be no deviation therefore from the policy already announced by the Government, except when important gaps have to be filled in by Government themselves. The Government must of course attend more closely and effectively to its preliminary job of exploration of the potential fields and promotion of every new promising undertaking therein.

Appropriate Fiscal policy

The fiscal policy in this connection must also be accordingly reoriented. The former basis was too conservative in conception and rather malicious in its working. It is no use therefore to be involved in the deceptive wording which clothed it, and a clear break-off therefrom is strongly urged.

As to future, we do not think it would either be possible or desirable to indicate any clear-cut and rigid basis. We would, instead, recommend a very elastic approach of dealing with each case on its merits and circumstances, the object being to enable every necessary and useful industry to emerge out successfully from the initial difficulties and stand on its own without any more of such "nursing". The period of protection should of course be cut down to the minimum and during this the Industry ought to be subjected to close and continuous supervision and necessary control, as already suggested.

Changes proposed

The main changes in the old policy would therefore be the following :—

1. Elasticity and comprehensive scope so as to cover any deserving case of necessary and useful productive industry, if necessary on the initiative of Government authority concerned itself, and in the manner befitting to the particular case.
2. Close and continuous watch over the affairs and working of the Industry in question and frequent examination of the position with a view to cut down the period of protection to the minimum. Rejection of the old system of fixing arbitrarily certain *ad hoc* periods.
3. Supplementing fiscal measures with all the appropriate non-fiscal ones also, amounting to "nursing" of the infant industry, so that the need for it is removed at the earliest and the industry is enabled to come out vigorously on its own.

Certain relevant points

In the light of what has been said above certain points become self-evident. They are as follows :—

1. It is correct and therefore it would be proper—and useful too, to make an unqualified pronouncement to that effect, that the fiscal policy best suited for India is protection.
2. Grant of protection need not be confined to infant industries, but if indicated by the needs and the relevant circumstances of the particular case fitting in the plan as may be adopted according to our suggestion already made, the proposal for granting protection should be considered even before an industry is established. For as stated above, protection is no doubt needed for the industrial growth of the country. What is important however is that the right infant is selected and right protection is administered for the definite period only as required, the aims of protection being to end protection and not to perpetuate it.

3. As to choice of methods of such protection we would prefer the appropriate method to be determined in each case on its merits. We think that protective import duty would be the usual method, especially when it is the case of enabling our industry to withstand competition and dumping of foreign goods. Bounty or subsidy would be preferable to import duties when it is necessary to help the industry concerned in a direct way and also to cheapen the product from the point of consumers' interest. We do not favour pool prices since they would have monopolistic features and would tend to work against individual drive for efficiency and economy. Quantitative restriction of imports is a method which may be suitable in certain particular cases only depending on factors like the possibility of correct assessment of the quantitative data involved, determination of an advantageous course on that basis and the limitations in following the same.

4. Apart from what is stated above, it may be worth considering, it seems, to prevent dumping of foreign goods, if necessary, by banning their import altogether for the time being, so as to enable our home industry to adjust itself to meet the challenge.

Policy regarding export Trade

5. As to our fiscal policy *vis a vis* our export trade, we have already stated that the demands of our internal consumption in regard to our requirements of food and those of raw material for our industries should be met first. All the other items should be developed to the utmost for purposes of our export trade, which ought to be handled through regular organisations of approved export agents under definite and effective Government control so as to secure standardisation of quality and fair price levels of the commodities and prevention of speculation. It is needless to state that free trade is only possible between two equally well-developed countries, otherwise the under-developed country remains undeveloped. Free Trade should, therefore, be deferred even in principle until India achieves an economy comparable with the industrially advanced countries. This point, however, is of something like an academic interest only. For, in fact, there is hardly any Free Trade at all existing anywhere in the world to-day.

Obligations of protected industries

After having dealt with the aspect of Government's role *vis a vis* our Industries, it is now necessary to indicate briefly some of the main obligations especially of the assisted Industries.

Generally speaking, every industry is only an organisation for the service of the community. But industries receiving protection or assistance from the Government are more directly the concern of the Community and owe a greater responsibility towards it. In view of this, protected Industries must fulfil the following obligations :—

1. They must fall in fully with national policy in every respect.

2. Their affairs must be treated as involving a high stake of the people of the country; and must not therefore be hided from the latter as if they were some privileged person or persons' exclusive concern, but should be correctly and clearly put before the public from time to time.

3. Protection and or assistance must not be allowed to be abused through inefficiency, wastefulness, monopolistic tendencies and or profiteering.

It must be insisted that the organisation and working of a protected industry ought to be definitely superior to that of others in respect of efficiency and economy.

Government protection or even assistance involves a certain burden on the consumers or the community. The very purpose in choosing to bear this burden would be frustrated if any the least inefficiency or waste in the conduct of the industry concerned were tolerated, while the burden itself would only grow worse.

Similarly monopolistic tendencies and profiteering would amount to deceiving the community to pay the price to that extent, only for the unfair and anti-social gains of the few vested interests.

It is therefore incumbent upon the industries enjoying government protection or assistance, to serve the community in the best; cheapest and most efficient manner possible.

Some relevant suggestions

All this may seem to be too plain to need any special mention. But the task of ensuring compliance to the requirements indicated above, will call for a good deal of serious thought and well-planned action.

Thus the Fiscal Commission, while making its recommendation, will have to lay down before it even the general frame work of national policy, including of course that in respect of nationalization.

On this point, we have said previously that a firm adherence to the original pronouncement made by the Government, coupled with the close and continuous supervision and necessary control that we have herein advocated with the object to secure standardisation of conditions and attainment of the definite optimum standards that may be laid down, should be considered satisfactory for the present.

Further, the Commission will have to suggest ways and means to enable a regular examination of the affairs of the Industry concerned and to ensure that they are conducted efficiently, economically and in the best interests of the consumers.

In this respect, we think that while a specialised agency of the nature more or less of "the Working Party" may be necessary and appropriate so far as the Industry itself is concerned, co-ordinating machinery, as for example, for the purpose of evolving a fair price structure, may also have to be set up.

Minimum and immediate conditions regarding Labour

At this stage may also be stated our views regarding the obligations of the Industries concerned in respect of Labour. We may not in this connection recount all the commissions and omissions of the past. Suffice it to say that Labour must be treated at least on par with capital in the present and immediate stage of our Socio-economic development. This requires for the time and *as minimum and immediate conditions,* the following :—

1. A basic change in the attitude towards labour, recognising Labour as not merely a factor of vital importance in the productive machinery, but also as a worthy member of the Community.

2. Paying at the lowest level not less than minimum living wages, occupational differentials appropriate to skill and labour involved to other categories, dearness allowance at the rate not less than that required to compensate fully the rise in the cost of living at least on the minimum living wage level, and the share in profits as proposed in the note of dissent by our President, Shri Khandubhai K. Desai in the Report of the Profit Sharing Committee.

3. Good working conditions, respectable treatment on the basis of equality of status, recognition of and full co-operation to Trade Unions with—necessary representative character : resolving trade disputes through mutual agreement and arbitration.

4. Effective voice in regard to management in so far as matters affecting working conditions, wages and security of service of the workers are concerned, while in other matters also Labour should, as far as possible, be taken into confidence and be welcome to offer suggestions.
5. The maximum possible relief should be granted in respect of housing by adopting interim plans which can be implemented with the available resources only and therefore without delays.

While the fulfilment of the above conditions is expected of every industry in general, protected industries have a special responsibility in this respect; for, employment on fair standard is—certainly one of the considerations in granting protection to a particular industry.

Our Approach

It will be seen that we have found it convenient and we believe it is proper also to deal with the whole subject of fiscal policy in its various aspects at their respective place in the general setting of our Socio-economy, rather than as an isolated subject by itself.

Mines, Power-Plants and Transport Systems

In this statement, we have not said anything separately and specifically *re* mines, power-plants and Transport systems. This is because of the fact that almost the same considerations hold good in their case as in that of the basic or key industries.

Finance, Taxation and Income—prices adjustments for Capital-formation.

We may now indicate briefly some of our ideas regarding finance, with which is also linked the system of Taxation.

In the first instance we wish to express it as our confident belief that our need for finance would not be of an unmanageable magnitude. We expect that the commitments in respect of our proposals for improving agriculture would not be very heavy, because the whole basis there is to make the rural people themselves do the needful. Government's resources can therefore be spared for concentrated use on specific and thoroughly sound schemes like development of cultivable land.

The requirements for development of cottage industries would of course be material, but considering each scheme, the investment would not be heavy in proportion to the turn-over and besides the turn-over would be comparatively quick also.

The most important item from the point of finance is of course of the schemes of Transport and Power development and of key or basic industries. But whatever the cost, which may have to be met even from borrowed funds, these schemes must be taken up and carried through so as to keep pace with or rather proceed just ahead of development in other Sectors.

Dynamic approach needed.

We are thus strongly in favour of adopting an enterprising rather than a conservative policy regarding finance. If our plan is fundamentally sound, befitting in respect of time and circumstances, and well-worked, the expenditure thereon is just good investment and it would be a pity to hold it up and thus perpetuate the stalemate in our economic life. This stalemate, we are convinced, has arisen because of absence of vigorous collective effort. If as a result thereof we only adopt an increasingly "cautious" attitude, which in effect means doing nothing, then not only will nothing be done but prospects of doing anything afterwards will dwindle down further still. If on the other hand the Government take a bold stride, making all our people enthusiastic and active about it, the lifeblood in our body economic would at once flow warm. It is time, therefore, for pursuing vigorously all our development schemes, not for dropping and cutting them. Any loans that have to be raised for the purpose, we repeat, is good investment; and the balance-sheet position of our country does certainly warrant it.

Need for economy in Administrative expenditure

While we advocate such dynamic approach in regard to development projects, we wish to insist with all the emphasis at our command on cutting down straightaway and materially the expenditure of our Governments. The present administrative machinery need a complete overhaul, such that every personnel is employed strictly on a definite purpose fitting in the whole scheme, is made to put in his full quota of work and is paid neither too low nor too high. India just cannot afford the present loose, unmanageably huge and extremely costly administrative organisation.

Revision of Taxation long overdue

From the point of finance and the comprehensive functions which the Government are called upon to undertake in rebuilding our Socio-economy, it is essential to change our Taxation policy also. The present system, with so many and heavy indirect taxes, is very unfair to the average citizen. Protection duties, so far as this aspect of the matter is concerned are not to be welcome; but on a balance of considerations they have to be accepted as already stated. It is only fair however that the taxation scheme is revised by adopting to the maximum extent possible direct Taxation and by distributing the burden more equitably than at present. Death duties seem to be long overdue from this point as also from that of putting idle wealth to use.

Putting idle wealth to use

It seems that at present such wealth is not being brought forth for investment. This is because we are in a rather confusing position for some time. The moneyed people feel that the old setting perpetuating the richness of the rich and poverty of the poor is going to be revolutionised. They are consequently sitting tight on their money and watching the times with forebodings and suspicions. The poor, on their part, have still not got enough to live by and spare. The remedy, we think, lies in making it clear to the moneyed people that while the old ways have to end for good, the new ones mean a more equitable distribution of wealth but no less of security. It may take some time for the adjustments involved and for the conviction and confidence to grow. But we feel sure that it can and must be brought home. The " Shyness " or " Strike " of capital will certainly end then.

Price-Income adjustments.

The other classes also cannot be left out of consideration in this connection. But before indicating possibilities from their quarters it is necessary to say something about adjustment of their incomes and the price structure. We think it would be unrealistic now to look forward to any immediate and material drop in price-levels. Logically, therefore, we shall have to consider ways and means of stabilising our economy first on the basis more or less of the present levels. For this purpose we think it necessary that the incomes of those groups which have not been examined and adjusted, should be so examined and adjusted to the existing price-levels. These groups include mostly the salaried class employees and workers in the unorganised industries. On the other hand, incomes at the top should be progressively reduced both by direct and indirect measures. Thus ultimately the income-range should not be wider than Rs. 100 to 1,200.

Once the immediate and minimum adjustments befitting the present conditions and price-level are made, as suggested above, we should be able to attain a steady and balanced economy, which then can lend itself to more rational and effective control so as to enable us to bring it to normally, including of course a lowering down of the prices. It will be most essential however to take every care to see that the very purpose of making these adjustments is not vitiated by further deterioration in the prices position. It will be particularly necessary for this purpose to make every effort, irrespective of anything else, to bring down the prices of food and cloth as far as possible. There must also be strict and effective rationing control on commodities in comparatively short supply. This coupled with adjustments we have suggested above, would enable the bulk of our people to manage their livelihood better and more easily than heretofore.

Small-savings

This would also open possibilities of small but wide scale savings.

Our banking organisations will have to be turned to serve better in this setting.

All these measures, taken together would certainly solve our difficulties of finance.

Prospects Hopeful

We thus confidently hope that given a correct lead, our economy would soon be out of the bog and could be rehabilitated on the desired lines.

We would be quite prepared and willing to appear before the Commission in a deputation to further clarify our point of view, as may be necessary.

Dr. V. K. R. V. Rao, UNIVERSITY PROFESSOR AND DIRECTOR, DELHI SCHOOL OF ECONOMICS, UNIVERSITY OF DELHI

1. It seems to me that the whole policy of protection has to be viewed in the context of our economic policy which envisages the planned development of the country's economy. The Government have announced their intention of establishing a Planning Commission and one of its tasks would obviously be to determine priorities in respect of industrial developments. The economy contemplated is a mixed economy, where a part of the industrial sector will be directly operated by the State either departmentally or, more probably, through public utility corporations, while the rest of the industrial sector is left to be operated by private enterprise, subject to such governmental regulations as may be prescribed from time to time.

2. The first question which arises is with regard to industries that will be set up by Government. There is no doubt that before setting up such industries, Government will undertake most detailed enquiries into the economics of such industries and would set them up only if they are satisfied that such industries are nationally necessary and economically justifiable. In other words, those industries that Government will set up would fall under the very class for giving protection to which the Fiscal Commission of 1921-22 took such strong exception in paragraph 101 of their report. I quote "If applications for tariff assistance are entertained on behalf of industries which have not yet come into existence and the Tariff Board has to consider not facts but the anticipations of the promotor, it will be a task of great difficulty to make a selection with any reasonable assurance of success. The danger of loss to the community by extending tariff protection to such industries will be great", and yet, under a planned economy, industries are bound to be set up by Government on anticipations and will presumably automatically enjoy protection either through tariffs or by other means. One example of an industry which has been set up by Government in this manner is the fertiliser industry in Sindri; and it is well-known that other industrial units are under contemplation. While I am completely in favour of a planned economy and, therefore, the setting up of industries by Government, I think some economic safeguards will have to be provided for this Governmental sector of industry, especially when there will also be a large private sector to which presumably economic principles of protection will be applied. My concrete suggestion, therefore, is that :—

(1) The Tariff Board should be consulted by Government in the initial stages before they actually set up a new industry or an industrial unit;

(2) that as far as possible, and subject to necessary exceptions in the case of defence industries, considerations which would normally favour protection to private industries, should also apply to Government industries;

(3) the Tariff Board should be given the power to make periodic progress reports on such governmental industries.

In my opinion, unless some such safeguards are provided, there is a danger of waste of national resources in one sector of the economy.

3. As regards industries in the private sector, protection is obviously one of the well-known and well-tried methods for promoting industrial development and I do not think it is necessary for me to argue the case for continuing a policy of protection in India. I do not, however, subscribe to the view that protection should be given in an unqualified manner. Even the minority of the Fiscal Commission did not ask for a policy of unqualified protection; what they objected to was the rigid content of the qualifying phrase "discrimination" which the majority of the Fiscal Commission adopted and made a necessary part of the policy of protection. I quote "while we agree that the policy of protection should be applied with discrimination, we do not think that any qualifications or limitations should be made a condition precedent to its adoption". The real question, therefore, is not whether there should be discriminating protection or unqualified protection, but whether the State should lay

down the broad qualifications entitling an industry to protection, or whether the prescribing of such qualifications should be left to be determined on an *ad hoc* basis by the Tariff Board in the case of each individual industry applying for protection. My own view is that the legislature cannot escape the responsibility for laying down, in however general a manner, the qualifications necessary for the grant of protection. I base my view on the fact that any measure of protection will affect revenues, impose burdens, however temporary, on consumers, and lead to utilisation of national resources in channels other than those which would have been followed in the absence of such protection.

While espousing the view that the fiscal policy adopted by the legislature should not merely be a single declaration in terms of protection, but should also contain the qualifications necessary for protection, I would suggest that the qualifications laid down need not be as rigid and inflexible as those laid down by the majority of the Fiscal Commission, in fact, I would even be prepared to advocate that the qualifications laid down for the grant of protection by the legislature may be treated as illustrative of what they have in mind rather than as the only conditions on which protection can be recommended by the Tariff Board. Thus, I would suggest a formula somewhat on the following lines :—

In view of the immense importance of industrial development in India and the almost insuperable difficulties in the way of such development in the absence of a given measure of protection from foreign competition, a policy of protection of Indian industries is both necessary and desirable; such protection, however, cannot be had by any Indian industry as a matter of right, just because it is Indian and irrespective of its economics in a broad sense. In particular, an industry desiring protection should, as far as possible, satisfy the following conditions :—

(1) It must possess some natural advantages; by way of illustration of what is meant by natural advantages may be mentioned either domestic supply of raw materials or a large home market or some other comparative advantages, such as labour or tradition or location, etc.

(2) It must not require such a measure of protection as will impose an intolerable burden either on the consumer or on the other productive sectors of the economy.

(3) Its current level of costs should be such that it will not be able either to emerge or to survive or to expand without protection from foreign competition, and

(4) It must possess foreseeable prospects of an eventual reduction in costs, and, therefore, of an eventual reduction or even elimination of the protection which it will be granted from foreign competition.

It will be seen that the conditions I have suggested as qualifications for protection are very much more liberal and, in fact, in some respects fundamentally different from those suggested by the majority of the Fiscal Commission. In particular, I would like to draw attention to the fact that the formula I suggest envisages protection to new industries, and, at the same time does not lay down the rigid and rather difficult condition, that proof must be furnished that the industry will eventually be able to face world competition without protection. What I am suggesting, therefore, is not a policy of "discriminating protection" as recommended by the majority of the Fiscal Commission, nor is it a policy of unqualified protection as some people would like to recommend. I think the best description of the formula I have suggested would be "nationally essential protection"

I must also add that exception should be made as regards the satisfaction of even the conditions suggested above in the case of those industries which are declared by Government to be essential industries from the point of view of national policy. Even in the case of such industries, however, I would recommend that the extent of protection to be given should be placed before the Tariff Board for its recommendations and the Tariff Board should also possess the power to hold periodic review of the working of such industries.

4. As regards the method of protection to be employed, I am of the emphatic opinion that the main method should be tariff duties supplemented, in such cases as may be necessary and financially possible, by bounties and subsidies. I am not in favour of using the method either of quotas or of guaranteeing a percentage of the domestic market for purposes of protection. I am in favour of the method of tariffs because—

(1) It gives the best incentive to the domestic entrepreneurs,

(2) leads to domestic competition with healthy consequences in terms of improvements in quality of output and increase in efficiency.

(3) gives the consumer greater freedom of choice,

(4) acts as an incentive to the protected industry, at least to make an attempt to keep pace with progress abroad.

(5) it can be more easily reviewed from time to time and either increased or reduced as the case may be, and

(6) enables the public to keep a better watch on the use of protection for industrial development without, at the same time, exposing the country to the adverse moral and economic consequences that follow from a system of analysing and control of individual industrial units by departmental officials.

I must point out, however, that I am not suggesting the complete banning of "quotas" or "pool prices" from the fiscal armoury; I would only suggest that the former should be used mainly for purpose of dealing with the adverse balance of payments or in implementation of bilateral agreements, while the latter should be used only in the case of commodities for which there is a nationally planned system of distribution, either directly through governmental channels or through channels rigidly controlled by Government.

5. I am of the emphatic opinion that clear reference should be made in the formulation of fiscal policy to the obligations of protected industries. Protected industries have an obligation to the community, as well as to the economy. Thus the widest possible opportunities must be given to the people of the country to share in the profits of protected industries, which means that there should be no monopolising of the bulk of the ordinary share capital of companies operating protected industries by the promoters and their friends, but that full opportunity should be given to the small man to subscribe to such shares. It also means that, as far as possible, protected industries should be run by joint stock companies and not by individuals or firms or associations of individuals. Secondly, the protected industry has the obligation continuously to strive for a reduction in its costs and for an improvement in the quality of its output. It has also the obligation to see that opportunities for employment and technical training should be open to all qualified persons and not confined to friends and relations of the promoters; in other words, the system of recruitment to jobs in the protected industries has a semi-public aspect and cannot be treated as one exclusively falling within the patronage of the promoters of such industries. Then again, protected industries have the obligation to see that they take a prominent part in the promotion of capital formation in the country, which means that there should be regulation of the distribution of their profits and specific provisions for the building of reserves. Finally, the protected industries have the special obligation of seeing that conditions of labour and of service conform to national policy and that, in fact, protected industries behave as model employers rather than as employers constantly in need of public rebuke and industrial unrest for the creation of decent conditions of labour.

6. If a policy of protection as outlined above is to be implemented, it is obvious that there should be some specific machinery for doing so. In my opinion, such a machinery should not be a Government department, but should constitute a practically autonomous body on the lines of the Tariff Board. The Tariff Board should be a body set up by special legislation and deriving its power and function from such legislation and not from the departmental orders

of any single ministry in the Government of India. It should not be a body representative of different interests, but should be a body enjoying a semi-judicial status and containing members who would command the confidence of the country for their integrity, ability, experience and objectivity of outlook. It is essential that the Tariff Board thus constituted should have individual or groups of experts appointed on an *ad hoc* basis for assisting the Board either in examining claims for protection or in reporting on the working and progress of protected industries. Hearings before the Tariff Board should invariably be held in public, and persons representing labour interests or consumer interests should have the opportunity to place their views before the Board on any application submitted by an individual industry. The conclusions of the Board should be in the form of recommendations to Government, the ultimate responsibility for decision being a matter for Government, at the same time, all decisions of Government on the grant of protection should be placed before the legislature for approval before the protection is actually granted.

7. The extent of protection should be recommended by the Tariff Board; obviously a considerable measure of discretion should be left to the Board both in respect of the amount of protection recommended and the period for which it is recommended. In general, however, I would agree with the formula of the "fair selling price" that would give a reasonable remuneration to domestic capital and, at the same time, avoid encouragement to inefficiency in production, but will tend to stimulate efficiency and reduction in costs. Provision must be made for revision of the tariff duties recommended in an upward direction if circumstances arose which warranted such action; in such cases, however, Government should obtain the opinion of the Tariff Board before undertaking such action. On the whole, I would not be in favour of a downward reduction of the tariff during the period of protection, even if favourable circumstances justifying such a reduction; and I would rather leave to the ordinary laws of the land the task of appropriating to the public exchequer a reasonable share of such extra profits, it being understood, of course, that with the expiry of the period of protection, the whole question will be examined *de novo*. I would lay stress on this view, because I think that unless there is some guarantee of the rate of protection for given period, it will be difficult to attract either capital or enterprise or to stimulate efficiency in the protected industries.

I attach a great deal of importance to the necessity for keeping a continuous watch on the working and progress of protected industries; I am also of the opinion that this function should properly be entrusted to the Tariff Board and not to a government department. In fact, I would strongly urge imposing a statutory obligation on the Tariff Board to issue an annual report on the progress and working of all protected industries and would add that these reports should be placed before the legislature and a day or two allotted for their being specifically discussed in the legislature. It follows that the Tariff Board should have the necessary powers to obtain the information that it requires from the protected industries and that it should also have the staff necessary for the purpose of not only collecting but also of analysing such information.

As I have already pointed out, the Tariff Board's annual review of protected industries should not only include those in the private sector, but should also cover those in the governmental sector.

8. Obviously, industrial development of the kind envisaged above will have to be undertaken in the context of a planned development of the country's natural and foreign exchange resources, and must not only proceed side by side with development in the agricultural financial and services sectors in the economy, but must also be accompanied by the ancillary development in the non-industrial sectors, which is essential for the industrial development. It becomes, therefore, a moot question whether the Tariff Board should function as an autonomous organisation or should merely be a wing of the proposed Planning Commission. My own personal preference is for making the Tariff Board a separate entity, not only because of the immensity of the problems it will have to deal with, but also because it will have some functions which will

be additional to those that will fall within the perview of the Planning Commission. At the same time, I need hardly emphasise the necessity for a close liaison being maintained between the activities of the Tariff Board and the Planning Commission.

Industrial development, then, takes its place as a part of the whole scheme of economic development. Among the many essential conditions for the facilitating of such development on both a comprehensive and a rapid scale, that of capital formation is, perhaps, the most important. I would emphasise what has already been stated by the United Nation's Sub-Commission on Economic Development, *viz.*, that primary reliance should be based on domestic savings for capital formation. I am aware that in a country currently as poor as ours, domestic savings will not be sufficient to finance economic development on the rapid and comprehensive scale which we all desire; at the same time, I am of the opinion that not enough attempts have been made in the country to tap its resources in domestic savings. I would, therefore, plead for an all-out policy for encouraging both the formation and the mobilization of domestic savings, partly by an extension and improvement in the banking machinery, partly by a system of differential interest rates applied to small savings, and partly by a more liberal governmental attitude to dividends.

As I have already stated, however, domestic savings are not likely to prove sufficient and the country may have to rely on foreign capital, at least to some extent. The whole question of foreign capital, however, is one that bristles with difficulty. Should we rely on private foreign capital or should we seek loans from foreign governments or should we rely on finances from international agencies? What is this "economic climate" which foreign private investers desired in order that they might send their capital to the under-developed economies? Can the under-developed economies provide this 'climate' consistently with their obligations to their own national economies and peoples? Should we enter into bilateral investment treaties? What guarantees shall we give for foreign capital, and what obligations shall we impose on them? Can we concede the principle of "National Treatment" of foreign capital? Even a mere statement of these questions is sufficient to show the complexity of the problem; and to discuss the whole matter would require a whole treatise by itself. I would, therefore, confine myself to stating my opinions in a somewhat dogmatic and summary fashion, and leave it to the Commission to ask me such questions as they may feel necessary for the purpose of better elucidation of my opinions.

To begin with, it is my view that, of all forms of foreign financing, the one most consistent with the interests of under-developed economies is financing through international agencies. I am not satisfied that the International Bank for Reconstruction and Development is in a position to meet all the needs of under-developed countries; at the same time, the conditions which the Bank imposes for most of its loans, the high rate of interest that it charges, and the banking orthodoxy that is an inevitable adjunct of the sources from which it draws its funds, are such that many schemes of development, vital to industrial growth and needing foreign financing, would, nevertheless, not be catered for by the International Bank. That is the reason why I outlined, in an appendix to the report of the third session of the United Nations Sub-Commission on Economic Development, proposals for the creation of a new international agency to be called the 'United Nations Economic Development Administration' or UNEDA. A copy of this document is submitted herewith for the information of the Fiscal Commission. The proposal met with scant sympathy both from the International Bank and from the United States, but it is gratifying to note that the Economic and Social Council has asked for an investigation into the adequacy or otherwise of the existing agencies for international financing, and that a committee of experts who recently reported on the subject to the U.N.O. have strongly favoured an increase in the resources of the International Bank and a relaxation of its conditions of lending for financing economic development in the under-developed countries.

I do not favour obtaining loans from foreign governments, as such loans are almost invariably accompanied either directly or indirectly by political strings; and to a country which has recently won its freedom such as ours, political strings of this kind would not be welcome and are not likely to be accepted by public opinion.

As regards private foreign capital, it is very difficult to get any really authoritative statement on what safeguards foreign investors want. Safeguards against nationalisation without compensation and against restrictions on transfers of profits and capital have been given by national governments, including our own government, but these do not seem to satisfy the private foreign investors. American investors, in particular, desire guarantees by their own government and President Truman's Point IV programme takes account of this desire and attempts to provide for such guarantees. Inevitably, however, the American Government wants to re-insure its risks by arriving at bilateral treaties with countries desirous of importing private foreign capital. At the same time, foreign private investors do not want restrictions placed on their freedom in the matter either of capital subscription or of appointment of directors or of recruitment of staff. They also desire not merely non-discrimination against other foreign investors, but also want 'national treatment' or non-discrimination against domestic investors. At the recent India-America Conference held under the joint auspices of the Indian Council of World Affairs and the American Institute of Pacific Relations; some of the American delegates representing business interests went so far as to indicate that, in their opinion, a suitable economic climate would include the maximum possible freedom from governmental regulations and restraints, thereby by implication declaring their hostility to a planned economy. Under these circumstances, I feel rather diffident in making any recommendations in regard to the treatment of private foreign capital. I shall confine myself to stating my opinion that :—

(1) we should enter into no general or bilateral agreements in respect of the treatment of private foreign capital.

(2) we should enter into *ad hoc* arrangements with each individual foreign enterprise that seeks to invest its capital in the country.

(3) that all imports of private foreign capital into India should be subjected to licencing, the grant of each licence being determined by mutual negotiation between Government and the investor concerned, the terms being fixed on the merits of each case.

I believe that what I have stated above is also what the Government of India has been following so far in regard to the treatment of private foreign capital; and if my understanding is correct, I would extend my strong support to this policy.

9. Finally, I would like to say a word in regard to the Havana Charter of the I. T. O. Without going into the details of the Charter I would like to express the opinion that the benefits it will confer on India from the point of view of promoting its industrial developments are very insubstantial, the clauses dealing with economic development being couched in vague and general terms; at the same time, the obligations it imposes on member-countries and the restraints it places on their freedom of action in the realm of fiscal policy are well-defined; and though subject to exceptions in the case of under-developed countries, nevertheless, are sufficient to constitute a significant reduction in the country's freedom of action. I am also not at all sure how far the ideal of multilateral trade underlying the I. T. O. Charter is going to be capable of practicable of realisation within the coming few years. Under the circumstances, I would like to suggest that India need not be in hurry to join the I.T.O. and that she should follow a policy of waiting and watching to see how many other countries join and in what way the organisation functions during the initial years of its existence before making up her own mind.

10. In conclusion, I may be permitted to draw the Commission's attention to the presidential address delivered by me at the last session of the Indian Economic Conference where I had discussed the more general problems relating to economic development. I am enclosing copies of this address in the hope that they may also prove to be of some interest to the Commission.

REPORT OF THE THIRD SESSION OF THE SUB-COMMISSION ON ECONOMIC DEVELOPMENT

21 MARCH TO 12 APRIL 1949

ANNEX. A.—FINANCING OF BASIC ECONOMIC DEVELOPMENT.

Suggestions for the Creation of a New International Agency by V. K. R. V. Rao.

1. *Reasons for the proposed organization.*

Whereas at present there is no international agency for :

1. Financing projects of economic development in under-developed countries which are not financially productive in a banking sense.

2. Aiding under-developed countries in the preparation and/or the execution of their programmes of economic development.

3. Co-ordinating the distribution of technical assistance made through the United Nations or its specialized agencies to the under-developed countries and linking the same with financial assistance.

4. Promoting or aiding in the execution of projects of economic development extending over more than one national frontier and not likely to be taken up by any one of the countries concerned, on its own initiative,

It is hereby suggested that a new international organization be set up to be called "The United Nations Economic Development Administration, or UNEDA."

2. *Functions of the proposed organization.*

The functions of UNEDA will be :

1. To make technical assistance available to under-developed countries in preparing schemes for economic development.

2. To co-ordinate the technical assistance for economic development at present available to under-developed countries within the United Nations and its specialized agencies, in order to see that different types of technical assistance are properly integrated and lead to a planned development of the resources of the country concerned.

3. To assist under-developed countries in obtaining materials, equipment personnel, etc., required by them for the execution of their programmes of economic development.

4. To finance or help to finance such schemes of economic development as cannot be financed from the country's own resources and for which loans cannot be asked for on strict business principles.

5. To promote and, if necessary, undertake the direction and financing of regional developmental projects extending over national frontiers and not likely to be undertaken by any one of the countries concerned on its own initiative.

3. *Finances of the proposed organization.*

The fund of UNEDA will be obtained from contributions by Member Governments. These contributions will be made by Members in their own currencies, and the commodities on which their contributions will be expended will also be subject to the approval of the governments concerned. In addition, countries now receiving assistance from the United States under European Recovery Plan may be asked to make special contributions after the completion of their economic recovery by 1952.

4. *Principles of financial assistance to be rendered by the proposed organization.*

1. Financial assistance will be given only to under-developed countries. The list of countries coming under this category will have to be arrived at by international agreement.

2. This assistance will be given only on the request of the countries concerned, except in the case of Non-self-Governing and Trust Territories, in which cases UNEDA itself may take the initiative by special arrangement with the administering Powers concerned.

3. This assistance will apply only to projects which cannot be financed, either by its International Bank for Reconstruction and Development or by

Inter-Governmental finance or by private foreign investments, but which, nevertheless, are basic to economic development and are expected eventually to result in an increase in national productivity and a rise in the standard of living of the people concerned.

4. Assistance will normally take the form of loans and not of grants, though terms of repayment will be liberal and the interest charged may be only nominal.

5. Assistance will normally be made conditional on the receiving country providing a share of the cost of the projects. In fact, in many cases, the under-developed country may be asked to provide for a 50 per cent. share of the costs involved.

General remarks.

UNEDA is not expected to function as a philanthropic body, ready to give away money to under-developed countries asking for foreign funds. While it is true that it will be primarily concerned with projects not normally passable by orthodox banking criteria, it does not mean the financing of wildcat or sentimental schemes. Projects for economic development calling for the aid of UNEDA will have to stand economic test, in the sense that their completion will result in raising the productivity of the under-developed areas and the standard of living of their peoples, largely by providing the basic conditions for ensuring the efficient and successful operation of the more orthodox[1] projects of economic development that may have been undertaken by these countries, or that they may want to undertake.

UNEDA will thus be essentially a complement to other channels of foreign financing and must not be regarded either as an alternative or a substitute to these other channels. Moreover, it will be expected to work in a business-like way; it will, therefore, not begin its work in a grandiose and extravagent manner with a multitude of schemes, but will be expected to take up specific projects of urgent importance and proceed to expand its activities on the basis of experience of results achieved. The caution must also be added that the operation of technical and financial assistance by UNEDA will not involve the setting up of a new international bureaucracy interfering in the internal administration or life of the under-developed countries, but will be carried out largely through the specialized agencies and, in all cases, in the closest possible co-operation with the governments of the countries concerned; and the assistance given will be operated in such a manner as to promote national self-reliance and enable the countries concerned to be in a position to dispense with this foreign assistance at a subsequent stage. Essentially, therefore, UNEDA will be an organization that will work on economic criteria and help the under-developed countries to help themselves.

Speaking realistically, I must confess that for the time being, at any rate, the bulk of the finances required by UNEDA will have to come from the United States of America, but the amount involved will be of a much smaller order of magnitude than what the United States of America is now spending on European Recovery Plan and it will have the further advantage of being of a global character, fulfilling, the objectives of President Truman's recent inaugural address, and functioning within the framework of the United Nations Organization.

The suggestions made above obviously represent a very rough outline and need a good deal of detailed thinking before they can be the basis of concrete action. Nevertheless, I have thought it worth-while to put forward this idea in the hope that attention may be drawn to the imperative need for something urgent and concrete being done by the United Nations for the rapid promotion of economic development in the under-developed countries; and it is my belief that this cannot be done without the setting-up of a new United Nations agency which will, on the one hand, act as a complement to orthodox foreign financing and, on the other, help to co-ordinate and integrate the supply of technical assistance to under-developed countries.

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[1] An orthodox project is used in the sense of one which generates enough income to meet the interest and amortization charges arising from its investment.

THE UNIVERSITY OF CALCUTTA.

Introduction.

The replies to the several questions, appended herewith are guided by certain general considerations which we regard as very important and to which we desire to draw the particular attention of the Commission inasmuch as they do not appear to have received their proper share of attention in the questionnaire.

In the first place, we think it important to realise that, in the matter of fiscal policy, past experience, though important, is of considerably less significance today than it was, for example, in 1923, because of the very great political and economic changes which have taken place in India and outside during the last two decades. Thus certain industries may not have shown much progress under protection in the past, but that, by itself, is not a disqualification for a continuance of protection today, if present and future considerations qualify it for that purpose. On the other hand, a case for the continuance of protection is not automatically made out by showing that the industry made satisfactory progress, according to the criteria envisaged in 1923 or mentioned in Q.25 of the present questionnaire. What we want to emphasise is that considerations of the future particularly of the desired set-up for the whole economy, should be the principal guide of our fiscal policy. The questions included under sections B and C of Part I should not therefore receive too great an emphasis from the Commission.

Next, old fashioned fiscal theory, based fundamentally on classical economics, on which the Fiscal Commission of 1923 principally relied, is as misleading today as past experience in this field. In particular we have to bear in mind that recent theoretical work has shown that the case for free trade is much more vulnerable even in the case of mature countries than it was formerly supposed to be. Similarly it is now recognised that changes in the balance of trade, instead of correcting themselves through price adjustments as the classical theory supposed, induce changes in the national income, the magnitude of which depends on the "propensity to import"—a consideration the importance of which is obvious in connection with the questions falling under Part II. Further, recent theoretical work confirms the popular idea that protection, even when it does not lead to a domestic monopoly or quasi-monopoly, distorts the pattern of income distribution in the home country in favour of the particular factor of production which happens to be relatively scarce in the country concerned. In the case of India, the scarce factor is capital from which it would follow that, on distributional grounds, there is a *prima facie* case against the establishment of a protective tariff in this country.

Two of the considerations noted above, namely those relating to the weakness of the Free Trade case and to the balance of trade, might appear to strengthen the case for Protection. But this appearance is due to the notion that Protection is the only alternative to Free Trade. In reality the antithesis is substantially between free importation and increased home-production, protection to private enterprise being only one of the alternative ways through which such increased home production can possibly be brought about. Such production may very well take place through agencies other than private enterprise. The desirability of granting protection to private enterprise does not necessarily follow from the defects of the free trade thesis, more so in view of the distributional consideration noted above.

It will appear from the considerations urged above that an essential prerequisite to the framing of a rational fiscal policy is a more carefully formulated economic policy relating to priorities in the field of industrial production and to the place of private enterprise in particular industries than is to be found in the Government of India's latest statement on industrial policy.

Question 14.—The policy recommended by the Commission, unsatisfactory as it was, was made worse in its implementation by being observed more in the letter than in the spirit. Rigid compliance was almost always insisted upon with the three conditions laid down by the Commission, and if on occasions the Tariff Board agreed to relax the conditions somewhat to meet a case of obvious

injustice, the Government usually prevented this and rejected the Board's recommendation. The case of the glass industry is typical in this category and it is well-known. The Tariff Board made a unanimous recommendation for protection being granted to this industry, and held that its dependence on a single imported raw material, *viz.*, soda ash, was not a sufficient ground for refusal of protection. The Government, however, took the most unsympathetic view of the case that was possible under the circumstances, and after sitting tight over the recommendation of the Board for three years, announced its decision to reject protection.

Generally speaking, an industry was refused protection, if its interests clashed with the interests of British industries, however, much it might have been suitable otherwise for the grant of protection. In such cases, the Triple Formula operated with almost mechanical severity. The cement industry, the locomotive industry, the woollen industry, and a large number of other industries which were refused protection fall under this category. The heavy chemicals industry, which palpably fulfilled all the conditions for protection, and which ran counter to British commercial interests, was granted some protection, but this lasted for only eighteen months after which it was left to make shift for itself.

The supplementary measures of a non-fiscal character recommended by the Fiscal Commission were generally well-conceived, but, again their implementation was half-hearted. The adoption of these measures also depended upon the question whether they would conflict with British interests. Thus, steps were taken to counteract the effects of the depreciation of Chinese and Japanese exchanges (*e.g.* in the case of silk and sericulture industry) or to safeguard an Indian industry (*e.g.* the tinplate industry) from the dumping of American and German products, but when the interests of some British industry were involved, generally no action was taken. Thus, it was widely alleged and substantiated with facts and figures, that the railway rates in this country were manipulated to serve the interests of British industries both as importers of Indian raw materials and exporters of manufactured goods to India. The Fiscal Commission endorsed the proposal of the Railway Committee for the appointment of a Railway Rates Tribunal to deal with such complaints. It is interesting to note that the recommendation of the Commission was implemented only last year, *i.e.*, after nearly three decades, by the National Government of Free India.

Apart from a too rigorous interpretation being put upon the requirements of the triple formula, departures in fundamental respects were made during 1923-39 from the policy as enunciated in the formula. This was done in two ways, *viz.*, (a) by the grant of preferential treatment to British goods, and (b) by a series of bilateral trade agreements. These departures from the original policy had the effect of reducing the degree of protection already enjoyed by a number of Indian industries.

Question 15.—The Fiscal Commission made it clear that the successful working of the policy recommended by them depended upon the existence of a permanent Tariff Board. Largely because the Government refused to appoint such a Board, various defects in the working of the policy manifested themselves.

In the first place, the absence of a permanent Tariff Board resulted in considerable delay, amounting sometimes to two years or even more, in the adoption of necessary measures of protection in deserving cases. Thus no help was usually forthcoming when it was most urgently needed.

For the same reason also, there could be no continuous watch over the progress of a protected industry. Hence if an industry tended to take things easy under the shelter of a protective tariff, and failed utterly to nationalise its technical and organisational positions, it was not possible, as would have been, had there been in existence a permanent Tariff Board, to keep it on the right track through direct contacts, persuasions and admonitions, and also, if necessary, threat of withdrawal of protection.

Besides, the recommendations of the Fiscal Commission were framed on the hypothesis that monetary and exchange policies on the one hand and the general character of the structure of texation on the other would not undergo

any fundamental changes. In the field of monetary affairs, the series of events culminating in the adoption of a new exchange rate at 1s 6d and in the establishments of the Gold Bullion standard, and, later the world trade depression resulting in the breakdown of this standard and the pegging of the Rupee to the Sterling, constituted an entirely new setting calling for an adaptation of the fiscal policy to these circumstances. As regards the structure of taxation, this also underwent material changes, particularly with the introduction of revenue excise duties at the Centre and the steepening of the rate of progression of the income-tax during the years of depression while the introduction of Provincial Autonomy in 1937 initiated changes in Provincial taxation which, though not very marked up to 1939, nevertheless tended to accentuate the disturbance in the balance of the relative burden of taxes on different classes. Generally speaking, careful consideration was not given to these factors. Such consideration as was given in some cases, *e.g.*, in the case of Sugar, did not take all factors into account and was not therefore entirely satisfactory, particularly from the stand-point of the relative burden on different classes.

Account should also have been taken of the far-reaching changes in external conditions affecting Indian industries during the inter-war period. Particularly with the onset of the Great Depression fundamental changes took place in the volume and composition of international trade and in the character of commercial policies of the leading countries of the world. These changes called for a thorough-going revision of our fiscal policy, and not a mere patchwork of the type made under the Ottawa agreements.

Question 16.—Appears to be out of place in Section B. It can be best considered along with Qs. 38 and 51 which deal with factors in the formulation of a new fiscal policy, without anticipating the replies to these questions, the following observations may be made :—

The triple conditions laid down by the Fiscal Commission to determine eligibility for protection were too harsh, and they were to some extent contradictory to one another. Thus an industry which proved to the satisfaction of the Tariff Board that it possessed "natural advantages", thereby fulfilling the first condition, had next to fulfil the condition that without the grant of protection it was "not likely to develop at all" or "not likely to develop so rapidly as is desirable in the interests of the country". Thus, it is obvious that the more was the first condition fulfilled, the less would be the possibility of fulfilling the second condition.

It was quite wrong to demand that all the three conditions must be fulfilled at the same time. If the development of an industry was desirable in national interest, and if such development was not likely in the absence of protection, *i.e.*, if the second condition was fulfilled, there would be a sufficient ground for the grant of protection, even though the first and the third conditions might be very imperfectly fulfilled or (in some extreme cases) not fulfilled at all. To revert to the case of the glass industry, it fulfilled all the conditions except for a minor disqualification that one of the raw materials, *i.e.*, soda ash had to be imported. Soda ash accounted for only 7 to 10 per cent. of the total cost of manufacture. For this slight flaw in the case, the industry was refused protection. If an industry which imports some of its raw materials is viewed unfavourably as regards its ultimate prospects, and if it is for this reason considered unsuitable for State assistance, the cotton and jute textile industry of Britain, the iron and steel industry in Japan and a large number of industries elsewhere, would have never developed.

Thus, the triple formula of the Fiscal Commission took a narrow view of the function of protection, and hindered or prevented the development of many desirable or essential industries. Perhaps there was no other country where more stiff standards had been set for the grant of protection. As has been well observed, the formula would have been quite appropriate for well developed industrial countries having a relatively few infant industries. It is entirely unsuitable for an industrially backward and mainly agricultural country anxious to attain a high degree of industrial development.

Question 19.—The changes made in 1945 in the original policy as laid down by the Fiscal Commission have been for the better so far as they go but they are not adequate. The following further changes are essential to ensure a proper development of the Indian industrial economy :—

(1) Condition (1) set out in paragraph 4, *viz.*, that the industry 'is established and conducted on sound business lines' is the only condition which is obligatory, but it rules out, as did the Triple Formula of the Fiscal Commission, the grant of protection to an industry altogether new, one, that is, which can not yet be said to be already established on sound lines. It is necessary, therefore, that this condition should be modified in a suitable manner.

(2) The question of grant of protection to a particular industry should be always viewed against the background of a planned industrial policy for the country as whole. The policy of piecemeal protection pursued so far has had no doubt the effect of safeguarding particular industries from economic blizzards temporarily threatening them, but their effect from the all-round developmental point of view has not been so conspicuous. The policy of granting protection only to industries which seek such protection should also be altered in favour of a forward policy of offering protection to suitable industries. The passive policy pursued so far has resulted in an unbalanced development of our economy; for example, it is only consumers' goods industries which so far have received protection and capital goods industries have been almost wholly neglected.

Not only should our fiscal policy be fitted into the needs of a planned economy, but it should be also adjusted to our present import and export controls.

Question 25.—(a) (ii) The question of appropriate location as a condition for the grant of protection is of vital importance. The entire effect of protection may be nullified by the bad location of the industry in question. When location is definitely inappropriate from the point of view of the market or the source of raw material, the Tariff Board should insist on change of location before agreeing to grant protection. The steel baling hoops industry was located in Kanpur and billets had to be transported from Calcutta to Kanpur and the finished products thence back to Calcutta. This traffic involved a railway freight of Rs. 83 per ton which could be avoided if the factory was set up in Calcutta.

Question 31.—(a) During the war years of 1939-45 important changes took place in the structure of India's international transactions. The main features of India's balance of payments in the inter-war period can be summed up under the following heads—(1) she incurred heavy obligations on service account and these obligations were highly inelastic, (2) she was an exporter of primary products and the fluctuations in the receipts on merchandise account were very wide, and (3) gold movements, and to a certain extent, capital flows, acted as the balancing factor. The first two obviously constituted weaknesses in her balance of payments position.

The changes that took place by the end of World War II were (1) a diminution in the obligations on service account—India in the meantime having accumulated a large mass of sterling assets and repaid most of her sterling debts on government account, (2) improvement in the terms of trade owing to the relatively greater rise of prices of primary products and the significant emergence of India as an exporter of manufactured articles, and (3) restriction of the scope of gold movements.

At the close of the War, India's balance of trade position became much stronger. But nevertheless there are still some elements of weakness. Food which did not figure much in India's pre-war imports—her net imports in this respect being on an average not more than 0.5 million tons per annum now came to be imported on a scale five or six times greater than before. Demand for certain types of machinery urgently required for heavy arrears in repairs and replacements could no longer be postponed.

The distinction between soft and hard currency areas which arose after the war gave rise to another problem. It now became essential to achieve not merely an over-all balance in the country's international accounts but also a balance in respect of hard currency areas.

Besides, there were remarkable changes in the direction and distribution of India's foreign trade which are too well-known to deserve elaboration.

Question 31.--(b) The changes in the structure of foreign trade during 1946-49 have been far reaching. The main cause was certainly partition, and its economic consequences have nowhere been so spectacular, as they have been in the altered pattern of the export trade of the Indian Union. As a result of partition the sources of many staple agricultural commodities and raw materials have been included in Pakistan, now a foreign country. From an exporter of raw jute and raw cotton the Indian Union has been transformed into a heavy importer of both these articles. Undivided India exported in the immediate pre-war year 690,000 tons of raw jute and 2.7 million bales of raw cotton. Now she is importing raw jute to the tune of about a million tons from Pakistan and cotton to the extent of one million tons mostly from that country. A good part of the total exports of hides and skins in prepartitioned India used to come from sources which now fall within Pakistan. But even now the Indian Union's export capacity is not inconsiderable in this respect. What is required is a processing industry, for the profits arising out of the processing are now being enjoyed by foreign countries. As regards oil seeds, India's export position should not deteriorate, for the oil seed acreage mostly belongs to the Indian Union. But as a matter of fact her exports of oil seeds in 1948 were only a fraction of the pre-war amount of about 1.2 million tons. This deterioration is due to a large increase in internal demand. The rise and growth of the Vanaspati industry is an important factor to be considered in this respect.

Jute manufactures and tea have not lost ground among Indian Union's export resources. Exports of tea totalled in 1948 159,608 tons valued at Rs. 55.8 crores against 160,000 tons valued at Rs. 23.4 crores of 1938-39. No country in the world ever set itself such stiff standards for the grant of protection. Jute manufacturers have also retained their prominent position in the export trade.

But it is obvious that the Indian Union will hardly be able to ever regain the old position of an almost mechanical surplus of exports over imports which was enjoyed by undivided India.

We must be very careful to develop our export resources. A well-thought out plan is extremely necessary to stimulate our exports to hard currency areas. Jute manufactures, tea, manganese and oil seeds are good hard currency earners.

But there are many obstacles to the development of our exports. One is the price factor. On account of high prices, Indian commodities are unable to withstand competition of foreign goods in the world markets. Some commodities which can best win hard currency for us—such as tea, manganese and jute manufactures are indeed being diverted from hard currency to soft currency areas because of their prices. The value of such exports may be increasing but their volume has been reduced. Inflation is at the root of these high prices. They are being diverted to soft currency areas not only because Indian prices are pretty high but also because higher prices in terms of rupees are obtainable in soft currency areas, owing to acute inflationary conditions prevailing there. As the process of disinflation is intensified in dollar markets without exchange adjustments, the diversion to soft currency areas will be greater.

On the import side, the most directly visible change is the large imports of food-stuffs. The deterioration in the ratio of exports to imports is mainly due to these food imports. They are also one of the principal causes of our deficit with hard currency areas. In 1948 our food imports from hard currency areas cost the Indian Union 100 million. It was 33⅓ per cent. of the total cost of our food imports and 66⅔ per cent. of our net deficit with hard currency areas. If India is able to become self sufficient in respect to food by 1951, the ratio between exports and imports will considerably improve and the deficit will also be narrowed.

India's current transactions in 1948 with different areas
(In Crores of Rupees)

STERLING AREA			AREAS			OTHER AREAS		
Receipts	Payments	Net	Receipts	Payments	Net	Receipts	Payments	Net
313·1	376·9	—63·8	148·3	197·9	—49·6	80·7	92·8	—12·1

Question 43.—In urging export control for safeguarding the domestic consumer against critical shortages and covering domestic supplies of raw materials for the benefit of home industries, one may be apt to take much too rigid and exacting a view of internal requirements. One should not forget that if export opportunities are not provided that itself might lead to low production. The withdrawal of export restrictions or their removal altogether is not likely to be followed immediately by such an outflow of materials as to be prejudicial to domestic interests. Foreign exchange in every country is not so plentiful as to be easily and thoughtlessly squandered away. There are certainly some commodities at least where export control can be immediately lifted. Vanaspati has a good case in this respect. The case of oil seeds may also be seriously considered in this connection.

The framers of questionnaire have not raised the issue of destinational restrictions. It should have certainly occurred to them for it is of vital importance in view of the post-war distinction between hard and soft currency areas and India's current deficit with dollar and hard currency areas. So long as this deficit persists, export restrictions must continue over destinations. The present restrictions appear to have diverted exports to a considerable extent to hard currency areas. Higher prices offered by soft currency areas are, however. rediverting some of India's exports, such as Jute manufactures, tea and manganese from hard currency to soft currency areas. The present pattern of destinational quotas may have to be continued for some time, though not necessarily in the same rigid form as at present. It is imperative that careful attention should be paid to the development of those exports particularly which are able to earn hard currencies.

Question 47.—The choice between various alternative forms of protection should depend upon the following considerations (1) the nature of the dutiable commodity, (2) the degree of specialisation to which the commodity in question may be subjected, (3) the degree of sensitiveness of the commodity to cyclical or secular price fluctuations, (4) adequacy of protective effect, (5) revenue considerations, (6) elasticity of home demand for the commodity and (7) administrative considerations.

(1) Even if it is deemed to be desirable to impose a specific duty, it may not be practicable to do so unless there is some definite and invariable physical quality or attribute of the dutiable commodity on which a specific duty may be based. A duty based on a physical condition which is not essential or peculiar to the commodity may easily be evaded. An *ad volorem* duty becomes the only choice in such cases.

(2) If there are different grades or qualities of a dutiable commodity, an *ad valorem* duty affords a more or less equitable distribution of the burden of protection since the effective rate of protection varies with the prices of different qualities of the commodity. A simple specific duty suffers from a disadvantage in that the absolute amount of the duty tends to be the same on a cheap as on an expensive quality of the article. But this disadvantage may be overcome if the commodity in question admits of adequate specialisation. If it is possible to have a separate specific rate for every important grade or quality of a commodity, there need not be any excessive burden falling on the lower-grade articles which are presumably demanded by the poorer section of domestic

consumers. If, however, the commodity does not permit of much specialisation, the protective purpose may be served, at the least cost of society, by the imposition of an *ad valorem* duty.

(3) A specific duty tends to be less burdensome but also less protective when the price of a dutiable commodity goes up, and more burdensome and also over-protective when the price goes down. An *ad valorem* duty has just the opposite effect. If the price of the commodity in question is cyclically very much sensitive, a compound duty containing both specific and *ad valorem* elements seem to be the best possible device, since that would at once mitigate the over-protective effect of a purely specific duty and the under-protective effect of an *ad valorem* duty in a period of falling prices, and also lessen the excessive burden of an *ad valorem* duty as well as compensate the inadequate protectiveness of a specific duty in a period of rising prices. If the dutiable commodity exhibits a secular downward trend of prices, in *ad valorem* duty is the appropriate choice. But since the regressiveness of specific duties in the face of falling prices may be overcome by means of ' multipliers ' or ' co-efficients ' with which the amount of the duty is altered *pari passu* with changes in prices, specific duties might easily replace an *ad valorem* duty under these circumstances as well.

(4) The protective effect of a specific duty is liable to be frittered away under conditions of rising prices, while that of an *ad valorem* duty dwindles under falling prices. A compound duty containing both specific and *ad valorem* elements therefore assures a degree of stability of protection in all stages of a cyclical price fluctuation which cannot be obtained from specific duties alone or form *ad valorem* duties alone. But, as already noted, the short-comings of specific duties in this regard may be largely overcome by means of ' multipliers ' or ' co-efficients '.

(5) In strict theory, the choice between different forms of protection should be made on the basis of a comparative assessment of their relative efficiencies for purely protective purposes. Revenue considerations should play no part in this matter. Nevertheless, in the context of our present financial position, the productiveness of alternative forms of protection should not, in our opinion, be altogether ignored though the protective aspect of the problem should receive over-riding consideration. If, for example, it is found that the protective effect of an *ad valorem* duty is identical with that of a specific duty, the final choice should be made on the basis of the relative advantages of the two alternative forms of protection from the revenue point of view.

(6) The choice between specific and *ad valorem* duties cannot be scientifically made without consideration of the degree of elasticity of home demand for dutiable imports. If the domestic demand happens to be relatively elastic, the protective effect will be greater for a specific duty than for an *ad valorem* duty in a period of falling import prices, and this protective effect is likely to be aggravated if falling imports prices are accompanied by falling domestic prices. The issue seems to be clinched against specific import duties, if over-protection is to be avoided. If, however, prices at home and import prices move in opposite directions, the case for the imposition of specific duties becomes quite strong under the above set of circumstances.

In a period of rising import prices unaccompanied by rising domestic prices, an *ad valorem* duty will tend to be more protective than a specific duty. If the domestic demand is elastic, the protectiveness of an *ad valorem* duty will be further enhanced. If over-protectiveness is to be avoided, the case seems to be made out for the imposition of specific duties under these circumstances. The objections against the imposition of *ad valorem* duties, however, lose much of their force, if rising import prices are accompanied by rising domestic prices.

(7) From the purely administrative point of view, specific duties can be much more effectively enforced than *ad valorem* duties. Since the basis of specific duties is some physical attribute which is a matter of fact, while the basis of *ad valorem* duties is valuation which is a matter of opinion, specific duties offer far lesser scope for evasion and corruption than do *ad valorem* duties. Administrative considerations thus seem to clinch the issue in favour

specific duties with a high degree of specialisation and supplemented by proper 'multipliers' or 'co-efficients'. Generally speaking, the imposition of *ad valorem* duties should be confined only to those categories of commodities which do not offer any reliable basis for the imposition of specific duties. But even in these cases, the basis of valuation should be the domestic price rather than the price at the place of origin.

Conclusions

We favour an empirical approach to the problem of framing our future pattern of tariff protection. It is necessary to weigh carefully the *pros and cons* of alternative forms of protection for every single protected item. While a specialised form of specific duties should occupy the centre of the stage, there is likely to be much room for compound duty, and some room for purely *ad valorem* duties as well as for alternative duties. Above all, it is necessary to evolve a system which offers the least amount of loop-hole for corruption and evasion.

Question 55.—(g) We are of the opinion that the recently established Industrial Finance Corporation should be empowered to take up redeemable and non-redeemable preference shares and even ordinary shares in the industrial companies applying for assistance where such a method of finance would be clearly suited to the needs of the particular case. The Government can further facilitate the supply of finance for industries by broadening the scope of the Finance Corporation and permitting it to assist partnership and limited liability companies.

Question 74.— (a & b). The essence of planning is the co-ordinated development on all fronts simultaneously. Hence forward it will not be possible to treat tariff problems in isolation; they must be related to the over-all developmental measures adopted by the planning organisation. If this position is accepted, it follows that the setting up of a comprehensive organisation (by whatever name it may be called) is not only necessary, but essential. Questions of dividing this organisation into sections, dealing with the planning and execution of various measures, will have to be tackled by those who will be responsible for the planning work in general. In particular, it should be their concern to associate as much of expert opinion with their own as possible. The method of *ad hoc* Committees, consisting of such exports, ought to be fully explored before the planning organisation comes, to a decision of its own. The organisation proposed in this paragraph is, therefore, three-fold. First, an over-all planning machinery with general control of policy. Secondly, a Tariff Commission (and other bodies) helping to form that policy and executive the policy when formulated. One of its tasks will be to keep in constant touch with the industries which have been granted tariff protection. Thirdly, *ad hoc* committees of experts which will conduct preliminary enquiries and submit reports to the Tariff Commission which will be responsible for co-ordinating the work of these committees and referring their reports (with modifications essential for the co-ordination) for the consideration of the general planning organisation.

Questions 77 *and* 78.—As the work of tariff co-ordination is becoming more and more complex, it is essential that a special organisation for the purpose should be set up as an integral part of the planning organisation. That it should be permanent body goes without question. But the nature of the special experience required in a member of the Tariff Commission (as here envisaged) is worth pondering over. We have supposed that enquiries relating to partciular industries will be conducted by *ad hoc* committees consisting of recognised experts on those particular lines of industry. If this is so, the Tariff Commission should be composed not so much of business experts, as of Tariff experts. The technical nature of the work must be reflected in the composition of the body.

Questions 82 *and* 83.—This procedure has often been criticised in the past and it is, of course, incompatible with sound planning. So far as the key industries are concerned, it is for the planning commission to take the initiative, set up targets and adopt such fiscal and non-fiscal measures as enable the industries to reach their targets without undue delay. As regards other industries, *viz.*, those in which private enterprise will be allowed to operate (*vide*

Statement on Industrial Policy) it is difficult to see how the initiative can be taken by the Planning Commission, but the consideration of application from industries seeking protection need not be the only method—it should be supplemented by giving powers to the Commission to conduct enquiries on particular industries as and when they think necessary. So far as new industries are concerned, it is worth considering whether the machinery of control of capital Issues should not work in close harmony with the Tariff Commission (all of these being parts of the general planning machinery) in all such cases.

There remains the case of small and unorganised industries. So far as fiscal measures are found suitable for their development, they should be given the benefit of those measures without being compelled to ask for them. For this a careful survey of their requirements will be necessary. It may be found that in this field non-fiscal measures will be more appropriate than fiscal measures. In any case, it will be for the planning organisation to take into account the results of the survey and accept such of its recommendations as can be fitted into the general structure of a Plan.

Question 87.—We have all along supposed that the policy regarding the suitability and the appropriate form of protection is to be formulated by the general Planning Commission. The Tariff Board, as a constituent part of that comprehensive organisation, will be required to work in its own limited sphere. Therefore the question that calls for solution is the relation between the Government and the planning body, and not that between the Government and the Tariff Board, as at present. It is difficult to see how the government can give up its ultimate responsibility, especially in our present constitutional set-up. But if members of Parliament are given more representation in the planning organisation, and if its reports can be publicly discussed, the object of ensuring that recommendations are not pigeon-holed will be adequately secured. Now, so far as the Tariff Board is a body of experts on tariff matters, its recommendations will constitute a system which will lose in internal consistency if the government tampers with them here and there. Therefore, so far as the level of tariff is concerned, we believe that the hands of government should be tied by appropriate conventions. The position should be accepted that the recommendations of the Tariff Board are either to be implemented or rejected, but implementations by parts would be worse than outright rejection.

DEPARTMENT OF ECONOMICS AND COMMERCE, CALCUTTA UNIVERSITY

Question 89.—Of the basic objectives of the Havana Charter as laid down in Chapter I, article 1, the first is the most general and, in a sense, the most fundamental. Our acceptance of this objective is unconditional. A few words of explanation of this objective may, however, be introduced here. The objective as stated in the charter runs as follows : "To assure a large and steadily growing volume of real income and effective demand, to increase the production, consumption and exchange of goods, and thus to contribute to a balanced and expanding world economy." It has to be noted that the world economic order aimed at here must be both expanding and balanced. In order that both these conditions are satisfied it is necessary not merely that there should be a steadily growing volume of real income in each and every country of the world, but also that the existing disparities between the levels of economic development of backward and advanced countries should be progressively removed. In other words the world economy as a whole must be "expanding", and different sectors of the world economy must be mutually "balanced" and in order to introduce such balance great economic disparities between different countries must be eliminated.

Subject to our unconditional acceptance of the first objective as explained above, we accept the remaining five objectives stated in Chapter I of the Charter in so far as they are consistent with the first objective, and feel constrained to qualify our acceptance of the remaining objectives in so far as they are incongruous with or repugnant of the first.

We consider it necessary to point out that incongruity of the remaining five objectives with the first one is not wholly lacking, and we feel it proper to draw attention to a few cases of such incongruity. The fourth objective stated in Chapter I of the Charter envisages the promotion on a reciprocal and mutually advantageous basis of "the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce". Reduction of tariffs and other barriers to trade should certainly be adoptad where it is mutually advantageous, but what has not been indicated in the statement of this objective and what needs affirmation, is that for the rapid development of backward countries contributing to the eventual emergence of a balanced world economy, a reduction of tariffs in such countries may well be inadvisable and the actual raising of tariffs and the adoption of certain barriers to trade may, for a time, be desirable. In framing our ideas. of the desirability or otherwise of protective measures we have to treat infant and grown-up countries as belonging to categories significantly apart, and while discrimination between nations, as nations, is to be unreservedly condemned as repugnant to the basic spirit of the I.T.O., it is quite pointless to ignore distinctions in the economic situations of different countries and to assume a false uniformity in the requirements of all countries. What is necessary is not the elimination of all discrimination as such, but the elimination of unprincipled discrimination. We suggest that of the principles underlying wise and permissible discrimination,, regard for unequal development of different parts of the world should be one, and considerations arising from geographical contiguity (such as exists between, say, India and Pakistan) may be another.

Similar comments may be made on the statement of the third objective which contemplates "the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development."

The conflict between the first basic objective of the I.T.O. and some of the remaining objectives is not accidental, but is due, at bottom, to an undue preoccupation of the Charter with the task of freeing international trade of all those restrictive practices, which appear to oppose the commercial interests of the economically dominant countries of the world, and to a relative neglect of the need of promoting a balanced world economy. The main emphasis of the Charter is on measures calculated "to encourage the international flow of capital for productive investment", "to promote the reduction of tariffs and other barriers of trade", and so on. While such measures are not necessarily unwelcome, they must be made subservient to, and should, if necessary, be modified in view of the supreme need of promoting a balanced and expanding world economy. In the Charter itself, measures designed to introduce free flow of goods and capital seem to have received prime attention, and the need of promoting a balanced world economy has been accommodated only in so far as it consists with such measures. It is here that lies the origin of the basic weakness of the Charter and its objectives.

Question 90.—The provisions and safeguards for the economic development and reconstruction of backward countries fall far short of the requirements of India.

Question 91.—*Re* : *Provisions.*—The provisions in the charter are quite unsatisfactory from the point of view of supply of capital and technical skill to backward countries like India. Though the charter of the I.T.O. devotes a full chapter to the subject of Economic Development and Reconstruction, its actual contribution to the solution of the problem is insignificant.

Practically the only positive obligation which has been laid on the organization as such in the matter is in respect of supply of technical advice. The organisation may tender such advice directly, or may merely assist a country to get such advice from other quarters. All that the Organisation is expected to do in the matter of supply of capital, materials, modern equipment, etc., is to promote, in collaboration with other inter-governmental organisation bilateral or multi-lateral agreements so as to assure "just and equitable treatment for the enterprise, skill, capital, arts and technology brought from one Member country to another". It may also promote such agreements for the "equitable

distribution" of capital and technical skill, but this is not an obligatory function and no machinery is provided for the carrying out of such distribution. Altogether, one cannot help the impression that the Organisation is more concerned with laying down conditions for the free international flow of capital than with the objective of securing to each country that measure of capital and technical skill which it actually needs for its immediate purpose of economic development and reconstruction.

It is suggested, therefore, that to give effect to the objective of the Organisation as laid down in Chapter III, provision should be made for an agency with the primary objective of fostering the development of backward countries and with sufficient capital and other resources at its command. The recent U.N.$36m. plan for economic assistance to backward countries may be regarded as an attempt in this direction. Such an agency will no doubt work in close collaboration with other allied international organisations such as the World Bank and the I.M.F., but its main task will be to promote economic development in backward countries.

In the next place, the charter enjoins upon members non-discrimination as between foreign investments. This principle of non-discrimination will prevent a capital-hungry country from offering better terms to another country from which it receives larger supply of capital and that on better terms too, than from other countries. There can be strict analogy between non-discrimination of products and non-discrimination of factors of production.

Re : Safeguards.

Regarding safeguards, these fall short of India's requirements in the following respects :—

(i) Our power to levy protective tariff is seriously compromised in the case of an industry the product of which has been the subject of a tariff concession by direct negotiation with another country. To levy a protective tariff in such a case, we must get the prior approval of the Organisation which would be difficult to get as depending upon substantial agreement with all the countries affected by the proposed measure. Failing such an agreement, we must wait for a period up to three years (expiring on 1st January 1951) when all tariff concessions would be reviewed.

It is, in fact, too hard a condition to make a tariff concession irrevocable for three years. This will not only hamper the grant of concessions but cause genuine suffering to deserving home industries in need of protection. It is, therefore, suggested that it should be possible to get release from any concession granted on six months' notice, provided such release is required for protection of a home industry and such protection has been found justified on an examination of the case of the industry by the Tariff Board. In arriving at its decision the Tariff Board will be required to consider any Report that the I.T.O. may think fit to submit on the matter.

(ii) We have no power, except with the prior approval of the Organization which would be difficult to get, to apply quantitative restrictions even of a non-discriminatory character for protection of industries started after March 24, 1948. Such restrictive practice is, however, allowed for the benefit of industries started between 1st January, 1939 and 24th March, 1948, and the approval of the Organisation in such cases, though necessary, is mandatory. There is no logical ground for regarding March 24, 1948, as a deadline for this purpose and such restrictions should be allowed for the purpose of industries started also after this date. It is not contended that quantitative restrictions are in themselves particularly desirable and it is not anticipated that such restrictions will be very largely used, if allowed. But being more flexible and generally more effective, they have a place in the protective armoury and they may be taken advantage of with discretion. It is suggested that their use should be permitted in under-developed countries like India for the development of new industries, i.e., industries started since 1939.

Question 92.—The terms and conditions proposed in the charter with respect to (a) existing foreign capital and (b) new foreign investments, are couched in more or less general terms, and either too little or too much may be read into them. A capital-receiving country is recognised as having the right :—

(1) "to take any appropriate safeguards necessary to assure that foreign investment is not used as a basis for interference in its internal affairs or national policies";

(2) "to determine whether and to what extent and upon what terms it will allow future foreign investments";

(3) "to prescribe and give effect on just terms to requirements as to the ownership of existing and future investments; and

(4) "to prescribe and give effect to other reasonable requirements with respect to existing and future investments";

The obligations undertaken by the borrowing countries are as follows :—

(1) "to provide reasonable opportunities for investment acceptable to them and adequate scrutiny for existing and future investments ....";

(2) "to give due regard to the desirability of avoiding discrimination as between foreign investments"; and

(3) "upon the request of any Member .... to enter into consultation or participate in negotiations directed to the conclusion, if mutually acceptable of an agreement" relating to investment opportunities, security or investment etc.

It thus appears that while a capital-receiving country can generally determine the conditions for the entry of new capital from foreign countries, it will not be quite free to vary the conditions after once foreign capital has been admitted. Any prescriptions it makes regarding the ownerships, or the working of foreign-capital must be "just" and "reasonable". In particular, as stated in Article 11, it must take no "unreasonable or unjustifiable action within its territory injurious to the rights or interests of nationals of other Members in the enterprise, skills, capital arts or technology which they have supplied."

The above may mean that a capital-receiving country must not discriminate as between home capital and foreign capital in the matter of taxation, labour legislation, nationalisation, etc. If so, the charter takes away valuable rights of safeguarding national interests in special cases. Much would depend, however, upon the interpretation put upon the terms "just" and "reasonable", and upon the authority qualified to give final verdict on such interpretation. It appears that such verdict rests, not with the borrowing country, but with some outside authority. Chapter VIII of the charter lays down a detailed procedure for settlement of all differences between members, and differences with regard to the interpretation of what is "just" and "reasonable" in the context of restrictive prescriptions on foreign capital would certainly come under the purview of this chapter. The procedure includes arbitration in the first instance, and if arbitration fails to settle the dispute, it goes in successive stages to the Executive Board of the I.T.O. the General Conferences, and finally, to the Court of International Justice. It is thus evident that the power of a country to regulate the activities of foreign capital within its territory is in some measure at least subject to international control.

Our opinion in this matter may be stated as follows :—

The charter should clearly demarcate certain purposes for which a member country should be absolutely free to regulate foreign capital and not depend upon agreement with other countries. For example, power to regulate conditions of entry of new capital, and to regulate the conditions for the expansion of the operations of existing foreign capital should be absolutely vested in the capital receiving country. Only when variations are sought to be made in the conditions of business once given to foreign capital should the above-mentioned procedure for arbitration, etc. be applied. This would give valuable right to foreign capital in the matter of continued enjoyment of existing privileges. At

the same time, the capital receiving country should be allowed to reserve the right to review, at stated interval the terms on which it initially invited capital, and, if necessary, to nationalise foreign assets after giving reasonable notice and with payment of due compensation.

Prohibition of discrimination as between foreign investments is also unacceptable for reasons already stated in reply to Q. 91.

Questions 93 *and* 94.—The broad lines of commercial policy as laid down in Chapter IV are acceptable subject, however, to objections on the grounds noted below :—

(i) Sacrifice of authority to apply quantitative restrictions, even of a non-discriminatory character, to safeguard industries started after March 24, 1948. This objection has been stated more fully in reply to Q. 91.

(ii) Sacrifice of authority for a period extending up to three years to protect an industry by raising our tariff in case the product of the industry has been previously the subject of a tariff concession. This objection also has been stated more fully in reply to Q. 91.

(iii) Although a country suffering from balance of payments difficulty is permitted to impose quantitative restrictions to correct its external position, such action may be challenged by any other member country on the question of fact as to whether the actual position of the external balance justified the measures taken. In such an event, the final decision on the question of fact would rest with the I.M.F. It may be noted incidentally that on the I.M.F. the United States commands a majority of votes. This seriously detracts from the value of the freedom to impose, quantitative restrictions on balance of payments grounds. None but the country directly involved can judge the safety line for its resources of foreign exchange. While the authority for deciding the margin of safety regarding our foreign exchange resources should rest with our own government, the I.M.F. may be permitted to judge whether the quantitative restrictions adopted exceed the requirements of the situation.

Question 95.—The obligations under the Charter are not absolute in most cases, but are subject to various exceptions, commonly known as "escape clauses". The obligation should not prove harmful to our country if advantage is taken of these exceptions in appropriate circumstances.

Question 96.—Yes, subject to the acceptance of certain modifications of the provisions of the charter along the lines already suggested. Moreover, we should keep a continuous watch on how the provisions of the charter react on our economy, and allow the experiences thus gained to determine our future attitude.

Question 97.—Does not arise.

PROF. D. R. GADGIL, BOMBAY.

The main problem set before the Fiscal Commission is that of the protection and assistance to industries and the recommendations of the Commission will depend on the manner in which the Commission views this central problem. It is generally expected that the point of view of this Fiscal Commission will differ greatly from the point of view adopted by the Fiscal Commission of 1922. The writers of even the minutes of dissent to the report of the 1922 Fiscal Commission did not go beyond advocating a somewhat liberal interpretation of the conditions under which, within the general framework of a *laisses faire* economy, protection to an industry should be thought justified and should be granted. There was then broad agreement that Government could not be expected to go much further than to remove or counteract the effects of factors that may temporarily or otherwise obstruct growth of normal industrial activity. Government policy was looked upon as playing a role definitely in the background, the main development being left to the operation of ordinary forces of what was considered to be an economy of free markets and private enterprise.

The attitude of even the strongest champions of private enterprise in India is no longer the same today. Planning has been adopted as a slogan not only by all political parties but also by all shades of economic interests. The activity of the industrial panels appointed during war by the Government of India and the types of recommendations they made take us far away from the philosophy of the working of natural economic forces. The plans even of industrialists call for regulated development to take place in definite direction within a comparatively short time. If the planning point of view is adopted its results on the recommendations of the Fiscal Commission should be radical. The main essentials of the new point of view appear to be as follows : (1) The determination of targets of growth of productive activity in important directions to be attained within a given period. (2) The distribution of the targets in some detail over time and space. The first involves some idea of the relative dimensions of the various targets and a broad indication of the steps by which the targets would be attained and the second involves distribution of the measure of intensification of economic activity in varying proportions over the different parts of the country and over successive years. In relation to industrialisation the latter means, in particular, the determination of the location of new industrial units. Economic planning has obviously many other aspects ; only those aspects have been noted above which have direct connection with industrial policy. At the same time the close integration of industrial production targets with targets in other fields of economic activity cannot be ignored. Many industrial targets are intimately connected with targets of agricultural production and production of other materials within the country. Industrial targets are also intimately connected with targets of transport development and targets of import and export allocations of specific primary or manufactured goods. Progress of industrialisation as part of a plan, therefore, means the adoption of he technique of planning and of measures suited to that technique over the major field of economic activity. If there is any large well planned progress towards this objective there would be no question of considering separately or independently the problem of assistance to individual industries and the machinery required to implement such assistance. In that event. protection to industries such by way of import duties levied on the import of particular products would be part of a general scheme of a plan of import and export allocations framed as a part of the whole plan. Also the machinery for implementation of industrial targets and policy would not be required to differ in any essential from the machinery devised to implement general economic planning.

The first point to be considered in connection with the terms of reference of the Fiscal Commission is, therefore, whether its recommendations are to be considered as part of an overall plan with Government may soon frame or not. In the former event it may have to take a wide view and do such work as that of co-ordinating and collating and also perhaps re-examining the recommendations of the industrial panels and it may also have to go in fair detail into questions of the general balance of payments and especially of the particular

balance of imports or exports of important specific industrial raw materials and finished products. The range of variation of the background conditions against which the Fiscal Commission may make its recommendations can be indicated as follows : At one extreme it may visualise the working of a national economic plan, prepared and executed under the aegis of a central authority. Under such a plan detailed targets would be laid down and various government agencies would operate directly and indirectly to see that they were attained. It may be that the Fiscal Commission may consider that it is not permissible to adopt this view and that nothing in either the terms of reference or the action of government regarding economic policy during the last three years will justify its adoption. At the other extreme the Commission may take the view that the bulk of planning and planning commission is, in the main, formal and empty and that even when any specific targets are mentioned by authority they are to be considered more as pious hopes than as real objectives of active governmental policy, that at any rate it is unlikely that any effective steps would be taken by Government for their attainment and that controls in the domain of import and export policy and for the conservation of foreign exchange resources would operate intermittently and hesitatingly as heretofore; for the rest, industrial development would be a matter for the private investor and enterpreneur. It may not be possible for the Commission to take even this full matter of fact a realistic view. It would then have to import into the situation a measure of rationality which may appear to be lacking in it at present. In whatever manner the existing situation is rationalised the main differences will turn on the extent to which Government policy relies on private enterprise and to which private enterprise is supposed to be given freedom to act.

In all this the dominant consideration is that if all industrial development is to take place through the activities of private investors and enterpreneurs it cannot be related to definite targets and definite achievements. Government may make a plan and announce objectives. It may also, to a limited extent adopt a policy by which private persons seeking profits are directed towards certain ends and repelled from certain others. The economic field will, however, in the main be occupied by private enterprise actuated by the profit motive. Whether in fact, in a particular set of changing circumstances, Government objectives are or are not attained would depend on the somewhat unpredictable total result of a multitude of private decisions. The point may be illustrated by reference to such problems as that of the depressed areas in U.K. in the thirties. So long as the depressed area problem was tackled by merely means of inducements for the unemployed to migrate or for new industry to settle in the area the end result remained uncertain. There was no direct Government intervention and the state contented itself with attempt at manipulation of general conditions, under which private efforts operated. Another illustration may be drawn from recent Indian experience. The Government of India may desire a certain distribution of arable acreage between different crops. For bringing this distribution about it may conduct propaganda, offer subsidies or manipulate the prices of certain agricultural products. However, the effectiveness of propaganda or subsidies could not be forecast with any certainty and unless the whole scheme of relative agricultural prices was under control and could be adequately manipulated even this important force would work with uncertainty. If, for example, cereal prices were pushed up in order to encourage production of foodgrains, at the same time as cotton and groundnut prices moved up even more than proportionately, cereal price manipulation should obviously prove ineffective. In the same way results of Government attempts to encourage particular industrial effort would depend on a great many external factors over which Government would not be exercising any direct control, *e.g.*, conditions obtaining in the capital and the commodity markets.

The point may be emphasized with reference to the questionnaire of the Fiscal Commission. It should be possible for the Commission to assume agreement on a certain number of points. Agreement could, for example, be assumed in relation to the desirability of considerable overall industrial expansion and the need for an active official policy for bringing this about. Also, in the light

of its terms of reference, it does not appear to be very important for the Commission to consider in a fundamental way questions such as those of agriculture, population and labour.. The unduly large proportion of persons employed in agriculture the overwhelmingly large and growing Indian population or the comparatively low efficiency of all kinds of productive activity in India may well be taken for granted. So also is there little room for difference of opinion on the need for large capital assets, obtained even from abroad if those are available on reasonable terms. A real problem, however, arises when the problems of the pattern of industrialisation or the balance of payments are approached. What for example is the purpose of visualising a pattern of industrialisation? Is it related to the maintenance of existing proportions of various activities or bringing about a changed system of such proportions during a period of time? To consider an instance, the relations between mechanised and hand industry have been examined by many committees in the past. Certain desirable pattern and certain measures for achieving these have also been indicated by All-India or Provincial Committees for specific industries such as handloom industry or the country oil press. It has been universal experience that action of the type recommended by committees or otherwise has so far proved futile in the face of any strong economic pressure. In the same way there has been vague talk of a location pattern for industry. But as long as no stringent action in relation to big connurbations like Bombay or Calcutta is taken the talk of dispersal and of an adequate solution of the problem of these big population centres is completely unreal. Each time the question veers back to the central issue of the direct intervention in and direct responsibility for economic affairs on the part of government. All recent considerations of definite government objectives has led to emphasizing the need for direct government intervention in economic activity if measureable results are to be attained. The most striking example of this is perhaps the recent report of the Export Promotion Committee. The composition of this Committee did not appear to make it pre-disposed in favour of government intervention and yet it found itself compelled to make recommendations in relation to trade, in jute and oil seeds which could only be considered as very far reaching. The issue may be made clear by analogy of the distinction between trying to obtain an increase in food acreage on the one hand by propaganda and subsidies and on the other by legislation on lines of the Bombay Growth of Food Crops Act.

Recent declarations of Government policy have definitely renounced direct ownership and conduct of industry. It may be argued that detailed control and regulation of the operations of private industry may achieve the ends of a plan without direct ownership or conduct. It does, not, however, appear that Indian private enterprise will easily reconcile itself to the set of detailed controls required for the purpose or that Government will desire to or will be able to enforce them. The protagonists of Indian private enterprise desire state assistance and protection, they also desire the continuance of many types of indirect controls. They, however, do not desire exactly the two types of controls which alone can guarantee the attainment of the social ends of production. These are production controls and controls over the distribution of the ultimate product to the consumer. The manner in which the Textile Industry has been able to put off rationalization and standardization of production is only the most notable instance of the shaping and working of the economic policy of the Government of India.

In the absence of the acceptance of ultimate controls the position differs from the 1922 position only in the following particulars. Firstly, the reasons that will be found acceptable for modifying the working of ordinary economic forces may be more numerous and more varied and secondly official action taken to provide assistance and protection may similarly be taken more often and may take varied forms. But the main features of the situation which will remain unchanged are that (1) within the manipulated circumstances it is private enterprise alone that counts and (2) the main beneficiaries of the whole scheme of manipulations remain the private enterpreneurs; because, however, much you may increase the contribution to the States or to labour the ownership of the instruments of production and the ultimate control of these instruments (largely brought into being by specific action of Government and at large costs

to society) remain in the hands of the private investors and enterpreneurs. In these circumstances, it is obvious that (i) results of Government policy will be uncertain and (ii) that Government industrial policy would not obtain and should not expect support from classes other than those of private investors and enterpreneurs.

No compromise appears possible in the fundamentals of policy. A regime of indirect controls, as at present, instead of being socially useful is merely the instrument of entrenching further the power of particular interests. (In this connection I would invite attention of the Commission to the lessors to be derived from the activity of the Commodity Prices Board, and especially to two reports of that Board (1) on controls and their continuance and (2) vanaspati prices. For an evaluation of the indirect controls regime see para. 26 of the former report).

In my opinion, the real question of the future is not what policy Government should adopt in regard to protection and assistance to individual industries but how soon Government evolves an overall plan of economic development and how actively and effectively this is implemented by a rapid progressive control, regulation and nationalisation of all important mechanized industry.

I have treated, at some length, this question of the fundamentals of official economic policy not only because I feel that it is at the root of all policy-thinking in India today but also because it is relevant to the consideration of a great many questions included in the Commission's questionnaire. Almost all questions included in Sections I, II, III, V and VI and questions (a) and (b) in Section IV and (c) in Section VII have importance for the work of the Commission chiefly when industrialisation is thought of in terms of and as part of a plan of economic development. If it is not so considered, little difference in principle would remain between the problem as faced by the Commission of 1922 and that by the present Commission.

In 1922 the protective duty was the main, almost the only known, instrument of policy. Today the instruments for giving protection and assistance are more varied; but the object in the use of the varied means will still be the same. Government decision would not take the form of quantitative production targets which are derived from a general plan; the decisions would rather be on the lines of whether a particular economic activity deserves encouragement for its growth and development whether conditions existing at any time are proper for the desired growth and whether if they are not, government can by any means at its disposal make them favourable is an adequate measure. Each consideration on these lines would be in relation to a specific economic activity and final decision in respect of it would depend on specific advantages supposed to be gained and the particular calculation of the disadvantages to be set off against the advantages by way of the cost to the public and to Government of the protection or assistance devices.

In this context the main new recommendations regarding policy that the Commission would today be required to make would be in connection with (d) of Section IV. This question would still be considered, as before, in relation to individual industries but the definition of principles would be very much broader than before. It could, for example, be related to a wider view of economic objectives and to a more integrated consideration of the working of economic society.

There is, however, one other respect in which the condition of the background against which the recommendations of the Fiscal Commission are made would, even on a narrow interpretation, differ widely from those to the condition of 1922. In 1922 Government intervention and regulation of any field of economic activity was entirely exceptional. Today these have become normal features of all aspects of economic life. Therefore, all recommendations regarding policy must be made and evaluated in relation to the regulations and controls already in force.

In this context the main field with which the Fiscal Commission is concerned is the field of foreign trade. In this field there operate at present, apart from protective and fiscal duties, prohibitions on some imports or exports, licensing

of other imports and exports, agreements with specific Government regarding exports and imports some of which are connected with quantitative quotas, etc. The industrial policy of the future and recommendations regarding it must be made in relation to this feature of the foreign trade field. Is it likely that some of the existing restrictions on foreign trade will vanish and conditions akin to those of the twenties will soon be restored? Is it possible and will it be proper for the Fiscal Commission to make recommendations on the assumption of such a return to the normality of a comparatively free trade regime? On any reasonable view of the matter such an assumption will be highly unreal. The serious shortage both in monetary and commodity fields that our country labours under today are not likely to disappear in any near predictable future. Therefore, imports and exports controls and licencing and also, most pobably bilateral trade agreements will continue to have an important influence on the field of economic policy in relation to which the Fiscal Commission is called upon to make recommendations.

It will perhaps be one of the most important problems to be faced by the Commission as to how the continuing controls in these fields and the objectives sought to be attained by them are to be reconciled with the operation of the system of protection and assistance to industries which the Commission projects. The varying and varied objectives of the policy of control over imports and exports have been brought out in brief in the notices included in the Fiscal Commission's printed questionnaire. It has also been indicated there that the exceptions allowed in the Havana Charter and in the general agreements on tariffs and trade are very wide, especially in relation to the balance of payments problems. It is clear that unless means are found to correlate the objectives and co-ordinate the working of the export and import restrictions from the commodity point of view, with the monetary and other aspects of the balance of payment policy and with the duties and subsidies required for assistance to industries, action on various fronts may continue to appear and to be as vacillating and contradictory as in the past three years. In some ways this is, perhaps, the most important problem as also the most difficult one. It is, for example, quite likely that the answers given to any particular question, such as that of the desirability of certain imports from certain directions, may not be same when given from the point of view of (1) essential consumer or other needs (2) conservation of hard currency and (3) assistance or protection to Indian industry. It would, therefore, be necessary to think out how both in the making of decisions regarding policy and also in the operation of controls these conflicting points of view are both (1) given adequate consideration and (2) discriminately reconciled in a final manner. The apparent vascillations of government policy have arisen from not having provided for either of these essentials so far. Policy seems to be shaped today essentially by individual *ad hoc* decisions, which by the nature of circumstances must be of a short term type, taken independently by various authorities in different departments in various controls and at various stages. An unsatisfactory result logically follows on the procedure. There appears, however, to be no easy and short way out of the present situation.

I would emphasise greatly the importance of this aspect of Commission's work not only because it is crucial and difficult but also because it does not appear to have been given the necessary attention in the framing of its questionnaire. I draw attention to this aspect without making any detailed suggestions

because, in my opinion, the proper solution of the problems can lie only in the adoption of an active and integrated economic policy. The attitude appropriate to a predominantly private enterprise field is an attitude that not only leads to but also dictates individual and *ad hoc* decisions. This it does inevitably, because it assumes that the larger integration is achieved by the working of natural economic forces. It is obvious that in India today the working of the mixed system of unregulated economic forces and partial controls is incapable of achieving an integration and reconciliation of the numerous individual decisions—official and non-official, taken largely independently of each other. I do not believe that it would be possible to guard against conflicting tendencies arising out of the various aspects of policy making unless the consideration of all of them was placed in the context of an overall economic plan. It is only when the basic priorities are all determined in such a plan and concrete targets set out only by it that the decisions made about various controls could be ensured to operate within a reasonable margin of correspondence with each other.

To sum up the Fiscal Commission may think of the task as one of framing the industrial development side of a whole economic plan. In this case it will have to consider the problem of the pattern of industrialisation and the place of the various types of industrial activity within it and other related general questions such as that of the balance of payments. On the other hand, it may take the view that future development will be brought about chiefly through private efforts, in which case the Commission will have to concentrate attention on the conditions under which and the objectives for which protection and assistance to individual industry will be held justified and the appropriate means through which it will be rendered. This will be an approach similar to that of the approach of the 1922 Fiscal Commission. However, the prevalence of a regime of partial controls over the whole field will complicate the prescription and evaluation of forms of assistance and this will be a new major problem that this Commission will have to tackle.

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SECTION A (I).

Question 1.—There has been a considerable change in the economic background of the country since 1922. By 1939 there was not only an economic awakening but also a sizeable progress in industrial development. The Second World War led to a remarkable expansion under artificial conditions which has now to be conserved. The post-war years have not proved equal to the task of maintaining the progress attained.

The general economic pattern of the country at present has no resemblance to that of 1922. Further, in its relation to the outside world the Indian Economy has had to face several complications since the war. So much so, the one central idea of offering incentive to industrial development which was predominant in 1922 has become relatively unimportant as compared to the other issues which are essential for maintaining the economy on an even keel. The Fiscal Commission cannot work in vacuo disregarding the other disturbing factors.

Question 2.—(a) Apart from the shortages of agricultural produce during war the most important permanent change in our agricultural situation has been caused by the partition of the country. The loss of Burma affected only our export position, but the creation of Pakistan has disturbed our self-sufficiency. The distribution of our economic emphasis will perforce be on the side of agriculture until such time that our valuable food position is obviated. The Fiscal Commission cannot ignore this change in this situation.

(b) Regarding consumption there has been a considerable difference owing to the flow of a greater proportion of the national income to the poorer classes. But the overall deficiency of food estimated has not much practical significance in a country like ours where such scientific diatetic standards have never been maintained. Life in India has always been based on a rule-of-thumb and several classes of people have not seen more than one meal a day. Their survival has always been due to their spiritual strength. One clear proof of the disparity between the scientific ration standards and actual consumption is the existence of the black market.

(c) India has become a net importer of food of a considerable volume owing to poor output and partition. Only the commercial crops have held their own as export products. Even among them raw cotton exports have fallen. This position threatens to last until the effects of the partition on our agriculture is relieved.

Question 3.—Our industrial progress cannot be as rapid as could have been had partition not taken place. Our attention has now to be divided between restoring agricultural self-sufficiency and accelerating industrial progress. Perhaps on the industrial side we may have to encourage with protection and subsidies much of the industries which may supply mechanical equipment and chemical fertilizers to agriculture.

Question 4.—Increased agricultural output is a basic necessity for intensifying industrialization. Greater efficiency in output would release the personnel required for the increase in secondary and tertiary occupations. The mineral wealth of the country deserves better prospecting and more intensive exploitation. Hereafter not only their home demand but the foreign demand will also increase. Their exploitation should be continuous and not contingent on the appearance of foreign demand as has been the case for instance of manganese. Probably a certain degree of State control in this respect may be necessary.

Since 1922 the greatest industrial progress has been with the metallurgical industries. The Iron and Steel industry has been sponsored by the Fiscal policy and the benefit are tangible. The cotton textile industry could have perhaps progressed equally well without protection, but during its vicissitudes fiscal protection was helpful. The Chemical industry on the acid side has developed owing to natural protection but on the alkali side there has been no progress. The progress has only been in particular directions. It has not been well co-ordinated. Consequently several gaps in the structure of Indian industry were discovered under the pressure of war.

Question 6.—(a) Machine tools, capital goods like textile machinery, agricultural machinery and implements, chemical fertilizers; other than ammonium sulphate, locomotives and rolling stock.

(b) Volume of production should at least reach installed capacity. During post-war years it has fallen below existing capacity.

(c) Operative costs have risen enormously owing to high labour costs. Labour output has not increased proportionately.

(d) Under management there is much scope in India for Rationalization and Scientific Management. It has hardly been attempted.

(e) Capital formation has been affected by high direct taxation and a large diversion of national income to middle and lower classes. They are still to develop the saving habit. Besides as long as inflation lasts they don't have much margin to save. Dissaving is also noticeable among the rich. These tendencies are inimical to capital formation.

(f) Raw material position seriously affected by Partition. There is not much scope to retrieve the position in the immediate future. Healthy trade relations with Pakistan is the only solution. Hydro-electric power has to be developed still further owing to the limited reserves of cooking coal.

(g) There is a shortage of technical ability. Training centres in India have to be established.

(h) Supply of labour is not inadequate but efficiency is low.

(i) What is worse is the go slow tactics practised during recent years. Labour organization have not inculcated a national spirit in the workers. Sectional interests is elevated and national well-being is subordinated.

Question 7.—(a) The most important is the handloom weaving industry. Provides occupation to four-fifths of the workers in textile industry. Maintains about ten million people. Though it provides only 30 per cent. of the cloth consumed it employs more than 85 per cent. of the textile workers. It is not a decaying industry. There is a high proportion of the wage bill to the total cost of production among them. Whereas in mill industry the proportion is only 25 per cent. it is 40 per cent. in hand weaving with mill yarn and 75 per cent. in hand weaving with handspun yarn.

Other small-scale and medium industries are :—

Bengal.—Rice mills, mills for pressing oil, hosieries, match factories and tanneries.

Bihar and Orissa.—Lac, mica, leather and oil. In these provinces people depend on traditional occupations.

Central Provinces.—Shellac, oil mills, glass factories, flour mills, brass and bell metal work.

United Provinces.—Blanket weaving, embroidery, carpet making, calico printing, etc.

Punjab.—Sports gear, cutlery, tanning and shoe making.

Bombay.—Leather handicrafts, metal handicrafts and gold thread.

Madras.—Tanning, groundnut decortication, silk worm rearing, etc.

Most of them suffer at present from a number of drawbacks, owing to lack of organization. Uniformity of products cannot be secured and quality cannot be maintained. Appliances in use are antiquated and crude. They could be refined without any fundamental alterations. Waste of time, energy and material is colossal owing to want of a rationalized technique of production. Finance is extremely lacking. The workers are in debt perpetually. Lack of efficient sales agencies render them a prey to the exploiting middlemen. Therefore the margin of profit is reduced.

(b) (i) In relation to agriculture they are of significance in providing subsidiary occupation. They will relieve the chronic under employment in agriculture. They will help in providing full employment in the agricultural section and prevent seasonal exodus.

(ii) In relation to large-scale industries the problem is to ascertain the feasibility of dovetailing them with large organizations wherever it is technically beneficial. At certain stages it is more economical to adopt the small-scale organization. On the basis of the optimum scale of operations for each process of production there should be a stratification of forms in each industry; some large and others small.

Question 8.—From a social standpoint the small-scale industries would rectify the unevenness of occupational opportunities in different regions. They can cover the voids left by the unfilled gaps in industrialization.

From an economic standpoint there is a technical necessity to organize certain industries on a small scale for efficiency. The optimum scale of their operations is small. The nature of the product, the methods of manufacture and the conditions of demand of certain industries are such that their operative efficiency is at its maximum when conducted on a small scale.

Thus they have an important part to play in Indian economy. At present they could help increase output and meet the inflationary potential to a certain extent. In the long run the structure of industry would be more rationally designed, occupational opportunities would be increased and to a certain extent regional balance could be restored.

SECTION A (II)

Question 9.—(a) Rural industries like sericulture, poultry farming, bee-keeping, etc.

(b) Handloom weaving, bell-metal industries and cutlery, sports gear, etc.

(c) Artistic crafts and Urban industries.

Question 10.—For export only the artistic crafts would be suitable; such as for instance carpet making, bell-metal ware, carving and inlaying, etc.

Question 11.—The price of cotton yarn has risen owing to protection adversely affecting the handloom weavers. Protection to large-scale industry will affect in general the cottage industries only when the raw materials of the latter are thereby enhanced in price. Otherwise the cessation of cheap imports standing in a competitive relationship with cottage industry products is an advantage. So each instance of protection should be judged in relation to its repercussions on the cottage industries. No generalisation is possible.

Question 12.—For first part of the question refer answer given to Question 7(a). Suggestions for improvements are : (1) To organize the handicraft men in voluntary associations. Some moral pressure may be brought to bear on them.

(2) Improvement in the technique of production, specification of commodities, economy in the purchase of raw materials. All these could be done by the joint deliberation of workers.

(3) Study of market conditions and appropriate designs of products can also be done through such associations.

(4) Joint installation of certain types of plant, e.g., a plant for preparatory processes in cotton textiles in a weaving centre for common use.

(5) Finance should be supplied by the State. The advance can be made through the medium of Industrial co-operatives to be formed by the workers.

(6) Supply of cheap electric power to cottage industries.

(7) Specialities and quality products to be encouraged so that competition with large-scale industries may be avoided.

Question 13.—There is only a remote possibility of Trade Agreements affecting cottage industries. Foreign imports are not likely to affect them much. Of course the exports of cottage industries, if any, may be borne in mind while negotiating trade agreements.

SECTION B

Question 14.—The policy recommended was too fully implemented and hence the trouble. The letter of the law was respected more than the spirit of it.

Question 15.—The policy in its operation was defective both in principle and in administration. The tripe formula has been extremely restrictive and it has been applied with rigidity. The hampering effect of the policy has been the main cause of the slow progress of economic expansion. The Fiscal Commission had also made it clear that industrialization should not be forced but should be achieved gradually. A bolder approach was necessary for expecting tangible results.

The glass industry was denied protection as soda ash was not available in the country. The raw materials for soda ash were available in the country but it was not being manufactured. So it was more a case of refusal of protection as another industry had not developed rather than absence of raw materials. Similarly in the case of worsted absence of raw materials stood in the way of grant of protection.

The protection that was actually granted in India was either to neutralize the unfair conditions prevailing abroad or as a countervailing measure against dumping or exchange depreciation. Therefore though the intention of the Fiscal Commission was grant "developmental protection" what was available was actually of the safeguarding variety.

Question 16.—No. The entire approach of the Fiscal Commission to the problem was extremely empirical in character. The first condition regarding raw materials is one that resolves itself ultimately to costs of production. Therefore the necessary costs of production in each case would have been more scientific approach than a mere description of the natural advantages that should exist in a country. The second condition of the formula is a mere explanation of the first and has no claim to stand as an independent condition. It is therefore superfluous. With regard to the third condition it is very difficult for any Tariff Board to forecast with accuracy whether an industry would be able to stand eventually without protection. Apart from an intelligent estimate of probabilities a definite statement in that respect is unreasonable to expect.

Question 17.—They were well conceived but hardly followed. The stipulation of the Fiscal Commission that industries of national importance should receive special consideration has remained a dead letter. The Tariff Boards in India have also taken a static view of the course of industrial development. They have not devoted enough attention to the ramifications of an industry under consideration. Unless the mutually dependent parts of an industry are also included new lines of production are apt to be neglected. A dynamic view of the economic structure would not only provide for the protection of existing industries but also offer incentives for the growth of allied branches. The exclusion of new industries from the scope of the protective scheme is another very unfortunate feature of the policy. It prevented the genesis of several useful industries in the country.

Question 18.—There has been the overriding consideration in India that the revenue needs of the country ought not to be jeopardised and consequently there has been an overcautious application of the policy of protection. The measure of protection has also been extremely moderate as the most efficient producer is taken by the Tariff Board as the criterion for determining the degree of protection. On the administrative side the procedure has been very dilatory and vexatious.

Question 19.—Here there is a relaxation of the conditions governing the grant of protection. Emphasis is placed on the actual or probable costs of the industry based on its economic advantages. An important departure in policy in this respect is the alternative provided to the existence of natural resources in the shape of economic advantages. That means even if some of the raw materials are not available in the country an industry may be entitled to protection on the strength of its other economic advantages.

The clause about national interest is given as an alternative to the natural or economic advantages of an industry. Thus what was an additional condition and a condition that was almost a dead letter has been raised to the status of a basic principle. It is obvious therefore that the conditions of protection are liberalized. It is a change in the right direction.

Question 20.—Unlike the reports of the previous Tariff Boards the reports of the present Tariff Board are not available. Except Press Reports of their recommendations no information is available regarding the arguments adduced. Hence it is not possible to comment on the work of the present Tariff Board.

SECTION D

Question 31.—There has been a decline in the quantum of India's foreign trade for a few years preceding the outbreak of the second World War. In the decline of India's foreign trade, imports have fallen to a greater extent than exports. The exports of India have shown a greater tendency to improve than imports. Imports of machinery are steady at a high level but imports of finished products have declined. Exports of manufactured products have increased and exports of raw products have declined. That shows with the aid of sheltered markets India may be able to expand her industries.

Regarding direction the share of the Empire and the United Kingdom has been declining more in respect of imports than exports. Even our exports are kept within the Empire more through Trade Agreements than by means of natural factors. The normal tendency seems to be to break away from Empire moonings. Till 1942-43 the war did not make much difference in our foreign trade as compared with the years immediately preceding. The year 1943 was very bad for imports. During the war Indian exports were in a better position than imports. Owing to the exigencies of war the share of the Empire was greater.

Question 34.—It all depends upon the nature of the economy that is finally accepted for our purpose. If a "Mixed Economy" with central planning is devised direct methods of control to insulate the planned economy may be more effective than fiscal measures. Fiscal Measures would still continue to safeguard the private sector. At present since the economy is partly controlled there is a great need for direct methods.

Question 35.—At the present time a tariff policy by itself may not be able to help much either trade or industry. In the first place, most of the economies are either fully or partially controlled. Secondly, the Havana Charter does not permit free scope for tariff manipulation. We have to devise a tariff to suit the Charter.

Question 36.—If the short period refers to the next two years the chief preoccupation would be the dollar shortage necessitating severe cuts in imports. As against this contigency tariffs would be absolutely superfluous. Only such of those imports from non-dollar areas which are competitive with local product may be regulated through tariffs if they are not to be subjected to direct method of control.

However, if a longer period than the immediate future is being thought of there should be no radical difference in tariff policy. Th enquiries conducted during the transitional period should have reference to the long-range policy of the Government.

Question 37.—Protection cannot be good for all time and under all circumstances. It is quite likely that assistance may be more appropriate and effective in some other form than through protection. It could be judged only on the merits of each case.

Question 39.—There is not much advantage in priorities to particular classes of industries. What is needed is an integrated scheme of development for a country. In such a scheme the vital link should receive priority.

Question 40.— Of course ; that has one of the chief defects of the previous fiscal policy. An industry need not necessarily be in an embroyonic stage to be entitled for consideration. Even in the pre-natal stages industries should be assured of the protection that they deserve.

Question 41.—(a) (1) Protective Import Duty : Under capitalist planning protective tariffs are essential for regulating through the price mechanism the activities of private enterprise, as State trading is not likely to appropriate the entire sphere of foreign trade. They should be available for protective purposes. It is wrong to think that they are irrelevant in a planned national economy. It may be true that in a fully planned socialised economy as in U.S.S.R. they are superfluous.

(ii) Subsidy : Production subsidies should be permissible as a price support as long as free enterprise has a sphere to function in a planned economy.

(iv) Quotas have also to be employed for executing the production plans. They are a better means than tariffs for exercising administrative discretion in discriminating between countries and as a more effective instrument for tariff bargaining. Quotas are also more flexible than import duties as instruments of regulation. They are not covered by treaty or most-favoured nation obligations. But it must be admitted that they are a non-conformable type of interference which destroys the price mechanism and free enterprise. Still a system of quotas which is a half-way house between a liberal and a socialised trading system has to find a place in the commercial policies of democratic countries which have embarked on planning. Then again to insulate the production plans quotas are the only means among countries which are not fully socialized. Tariffs would be relatively ineffective for the purpose. Quotas can be made less harmful than what they were in the inter-war period.

(b) None of them individually can be the normal method. There should be a judicious combination of all of them.

(c) Yes : It should be decided in each case on its merits. The conditions of selection are the degree of planning and whether the industry falls in the Public or Private sector. Further, the ability of the industry to avail itself of protection should also influence selection. If it is too weak, a price support in the shape of a subsidy may be necessary.

Question 42.—For safeguarding or anti-dumping it is best that direct methods of control are applied. It is desirable that Tariffs are reserved only for long-range protective policies.

Question 43.—(a) Export duties would have a very minor place. Only where the incidence is likely to be on the foreigner it may be imposed and the proceeds may be used for fortifying the industry lest it should lose the foreign market.

(b) Against critical shortages and conservation of raw materials direct methods are always more effective and reliable. Export duties may not be of much avail.

Question 44.—Export subsidies are not desirable and neither can India afford it. All fiscal help should be on the side of raw-material and plant equipment. Any import duties on them should be abolished. If that is not feasible a rebate on the duty paid by export industries should be allowed.

Question 45.— They are taking the most efficient firm as their criterion. This is not scientific under product differentiation and monopolistic competition. The optimum size of the firm is never reached under such conditions. The average cost of a few representative firms may be a more satisfactory proposition.

Question 46.—No. It would lead to unnecessary confusion and still may not achieve the object.

Question 47.—The price level, the nature of the commodity, and the degree of protection to be granted.

Question 48.—Quantitative quotas are preferable to tariff quotas.

Question 49.—A minimum is better as no one can say definitely when protection would become superfluous.

Question 51.—Our long-range fiscal policy can only fit in to the general scheme of Economic Planning. Unlike on the previous occasion the Fiscal Commission has now to prescribe within the limited scope available for tariffs to play a part. Then tariff policy was everyting, but now it has to adjust itself to the limitations imposed on it. On the one hand there is the Havana Charter and on the other the need to plan. Neither of them will allow a free hand to tariff. Hereafter tariff by itself cannot achieve much.

Question 52.—State trading is done either to face national scarcity as in the case of food or as of planning. It cannot come to the rescue of the fiscal policy.

SECTION F

Question 58.—The concept of Imperial Preference has now to be viewed from a new perspective. It is not the Havana Charter or the General Agreement that impels the change. It is the balance of payments problem which is bound to last for a longer period than what is imagined. To restore balance and revive multilateralism we need "Regional Blocks" having freer trade. This is the first step in the revival of world multilateralism. For this purpose a convenient area like the Empire or the Sterling area has to be taken and within it freer trading relationships ought to be established. Such an area is non-political transcending national borders and will have nothing in common with the old concept of imperial preference.

Question 59.—The principles laid down by the old Fiscal Commission are not relevant to the present issue. The Regional Block is for the co-ordination of a full employment programme. The patterns of economy in the area may be suitably adjusted. Trade may proceed in the area as far as possible on a basis of exchange stability by price competition within a free market. It may be supplemented, with mutual agreements, by reciprocal bulk-purchase agreements, quota restrictions and subsidies according to the aims of the developmental programme in each part of the region.

Questions 61-65.—As I have suggested above an altogether new approach is needed. I am not in favour of continuing the existing system.

SECTION G

Question 66.—(a) Yes, they do, but their freedom cannot be completely fettered on that account.

(b) (i) Price policy should not be interfered with by the State except when they exercise powers of discrimination in prices.

(ii) Wages : They should conform to a fair wage fixed by the State. Conditions of work should be as prescribed by the State.

(iii) Technological improvements and Rationalization would be subjected to review by the Tariff Board in its periodic enquiries. They will reveal themselves through cost conditions which should hereafter be the criterion for a claim for protection.

(iv) Research will depend on the resources of the individual firm. It cannot be forced on all the recipients of the benefits of protection.

(v) Training of apprentices, etc., should be compulsorily enforced.

Question 67.—(a) An interpretation of restrictive practice is not easy. Undue interference in the internal working of an establishment may be resented by private enterprise. Besides it may not be necessary. Beyond general stipulations for the maintenance of healthy competition the State ought not to go in restricting the freedom of action of protected industries.

(b) Combination takes place purely on economic grounds. If protection gives rise to it there is no point in preventing it. Only when they develop a monopolistic position and tend to exploit that there will be a case for intervention. Even then the objective need not be to break the combination but to control prices, etc.

Question 68.—It is much better to legislate about the financial structure of all industrial concerns, irrespective of the protection granted in order to prevent industrial mortality.

Question 71.—No special machinery is necessary nor is it desirable to have government representatives on the Board of Management. That is a feature only of "Mixed Undertakings" where the State contributes part of the capital. The Tariff Board should be enlarged having a different nomenclature and ought to be entrusted with this work.

Section H

Question 72.—Existing organizations are inadequate. The only change for the better is that the Tariff Board is almost permanent and not ad hoc as hitherto.

Question 73.—There should be an extension of the scope of the organization. It should be a body capable of initiating enquiry not only in respect of tariff protection but also about all allied problems of industrial development. It must be vested with powers to plan and suggest methods of industrial and commercial development. Consequently it would be more appropriate to call it as a Board of Industrial Enquiry rather than a Tariff Board. Though as advisory board it should be a statutory and permanent body with full powers to summon witnesses.

Question 74.—Yes; something on the lines suggested above.

Question 75.—It is not advisable to have specialized independent organizations. It will lead to difficulties in correlation.

Question 76.—No; the ministries are the least fitted to be entrusted with that responsibility.

Question 77.—Yes; as already mentioned even though the scope and efficiency of tariffs is relatively less in the present context of economic development still it cannot altogeter disappear from the picture. So to implement there ought to be a specialized organization.

Question 78.—Refer answer to Question 73 above.

Question 79.—There should be an extension of its functions as indicated in the answer to Question 73.

Question 80.—The functions of the existing Tariff Board are certainly wider than those of the *ad hoc* bodies constituted previously. But they do not go to the full length that is desired. Its functions ought to be much more comprehensive. As a matter of fact it has not been made a permanent body and it is certainly not a statutory body.

Question 81.—The present structure is inadequate and unsuitable for the enlarged scope of the Tariff Board. Tariff making is based on a knowledge of industrial conditions and trends of trade. The fiscal policy of the nation is equally important. So it should function in three or four sectors each making a continuous study of the developments. The advantage of such an organization is that when an issue comes up for decision it could be most expeditiously dealt with.

Question 82.—The present practice of the exercise of discretion by the Government in selecting certain industries for enquiry should be given up and all industries seeking protection should have a chance of being heard by the Board.

Question 83.—Whether an industry is small or large the above practice should be followed.

Question 84.—It should be addressed to the Tariff Board and the Board should appraise the government before commencing enquiry.

Question 85.—The above suggestions are all modifications of the present procedure and they will be more expeditious.

Question 86.—Not much.

Question 87.—On technical matters the Government should **not** sit in judgement over the recommendations of an expert body. It is only when it is not administratively feasible that the Government can refuse to implement.

Question 88.—(a) and (b) Certainly yes; only composition and functions need be laid down. The others can be inferred by the Board from the General Industrial policy of the State.

(c) By leaving the details undefined flexibility can be maintained.

DR. RADHA KAMAL MUKERJEE

The policy of protection so far followed has been one of discriminating protection. This has led in some measure to a lop-sided industrial development, particularly the neglect of cottage industrial production in the country.

A fundamental change in the approach to the fiscal policy is necessary which may be characterized by the axiom of Full Employment of Productive Factors in a planned scheme of balanced development of agriculture, small scale and large scale production on the one hand and a balanced progress of industrialisation in the advanced and backward regions and states in the new federal republic.

Fullness of Employment should be considered as the basis of the new tariff policy in view of the vast chronic unemployment and under-employment in agriculture (estimated at about six months in the year outside the zones of intensive farming and dairying) and the possibilities of development of cottage industries that even at present employ about 12 million persons.

Besides, diversification of employment is necessary not for the sake of economic stability but also for an all-round diffusion of scientific, mechanical and technical efficiency among the whole population associated with what is called Urbanisation.

The largeness of the possible domestic stable market is also favourable for a forward protectionist policy from this view point.

Protective efficiency is so low, largely due to lack of power development and of employment of modern machine tools and appliances rather than of any innate inferiority of the labour force that a condition of full employment cannot be reached if we continue to import all types of goods from other parts of the world with many times higher industrial and agricultural productivity than ours.

The expenditure on imports estimated at about six per cent. of our national income is almost equal to total savings in the country and thus represents an excessive leakage from the investments multiplier. This itself is a symptom of our undeveloped economy and chronic unemployment. If this rate of imports to Savings continues as at present even an improvement in national income and investments would accompany the use of improved purchasing power in the country for providing foreign employment.

Hence imports have to be severely restricted for attaining the objectives of large investment in Indian industries and other sections of domestic economy and of both specialisation and diversification of employment.

Such a programme may also involve a restriction in the rate of growth of exports but this will not affect employment adversely in the country due to the largeness of the domestic market.

Again, the programme obviously will be inflationary in the near future though not in the long run. But this will be associated with continuation of the present policy of statutory fixation of fair wages and profits and price controls so long as there is scarcity. In fact real income will grow and inspite of higher money costs there will be all-round improvement of the standard of living.

For the implementation of the policy of protection for full employment briefly sketched above, the home producer should be put on an equal basis with his foreign competitor through suitable tariff on the principle of equalisation of costs.

Comparison of costs is difficult in a regime of foreign exchange controls and blocked funds. But such difficulty has to be faced by an expert tariff board.

All home production should thus be entitled to protection whether large, medium-sized, or cottage—large industries, small-scale and cottage industries and agriculture.

In such a policy much of the demand for industrial consumers' goods, and particularly, quality goods will be satisfied through a development of small-scale and cottage industries that have to be protected against competition with foreign similar or substitute products.

The largeness of the domestic market for cottage production goods itself imposes an economic obligation to develop cottage industries for our own needs rather than for export purposes, although in a short-period an export drive is necessary to fill the gap in the balance of payments.

Both, the fiscal policy and industrial policy of the country have to be so trimmed and co-ordinated as to secure the largest measure of employment for the people in the aggregate, distributed between the various types and units of production. Any handicap which cottage production suffers from at present in comparison and competition with large-scale industry at home has to be removed, especially in a short period programme.

Thus in the textile industry weaving of lower counts of cotton should be reserved exclusively for the cottage workers while permitting the installation of new cotton mills.

Similarly, any handicaps that a province or state suffers from due to its general economic backwardness should be removed by a planned licensing and localisation of new industrial establishment. In fact, licensing should be properly utilized so as to bring about a quicker industrialisation of the less advanced provinces and a poised development on a regional basis.

In certain cases, in addition to the tariffs, the designs of 'mixing quota' should be utilized so as to distribute the benefits of a protective tariff to the best possible advantage to all regions and sectors of economy.

Whenever protection is granted there should be a regulation fixing a minimum proportion of the raw material produced in the region for use by the industry. For instance minimum proportion should be laid down for the use of Jute, Cotton and raw wool and silk produced within the country. The percentage so fixed should be raised as the country reaches the goal of self-sufficiency in these raw materials. Similarly in the case of petrol we should have a minimum percentage of power alcohol to be mixed with all imported petrol for the encouragement of our power alcohol industry as well as for self-sufficiency in this field.

Agricultural protection must also be considered as a measure for establishing agricultural prices, for giving security to the agriculturist and for expanding agriculture. American and Australian wheat, which may be sold in our country at an unfair price may be a real menace to our agricultural stability and prosperity. Pakistan jute and cotton may also threaten the marginal growers of these products in India in the near future.

The disadvantage of an over-all protectionist policy for an under-developed economy like ours is that it carries the risks of retaliation by foreign countries. But at the same time it enhances our bargaining capacity for bilateral trade-agreements. In fact these latter may be so utilized as to bring about better economic co-operation for mutual advantage and expansion of foreign trade.

The alternative to such a protectionist policy is state monopoly of foreign trade regulating imports according to the over-all necessities of a planned economy. But then, it would be difficult, and it might well prove impossible to preserve a predominantly competitive character in internal trade and production.

SHRI B. R. MISRA, HEAD OF THE DEPARTMENT OF ECONOMICS, GOVERNMENT COLLEGE, PATNA

Question 36.—The objectives of tariff Policy in the short period may categorically be stated as follows :—

(1) Control of imports,

(2) Improvement in our international balance of payment position and

(3) State assistance to domestic enterprises.

Question 37.—The fiscal policy best suited to India is not protection or free trade put down in a categorical manner, but a policy which would best promote the economic interests of the country keeping in view our international balance of payments position and the interests of the consumers. Thus there may be a case where free trade would best serve the interest of the country and a policy of protection would be definitely harmful.

Question 38.—Protection or State assistance may be granted to an industry provided some of the following conditions, among others, laid down by the Indian Fiscal Commission, 1921-22, are fulfilled :—

(1) There should be a greater State control in the management of such industries e.g., the State may nominate some directors on the management to watch the condition under which the industry is working.

(2) The role of managing agents must be definitely reduced to a minimum if the industry is to enjoy protection. It is needless to dilate upon the evils of managing agents as they are well known and hence if an industry is to receive protection or any types of State assistance, the influence of managing agents in the management or regulation of industry must be, by an act of legislature, drastically reduced.

(3) Consumers Councils should be formed and given statutory representation on the board of directors of such industries. In some of the recently nationalised industries in the U.K., there is a definite provision in the act for the formation of Consumers Councils and the conditions relating to their working. I suggest that in order that the interest of consumer be safeguarded in the case of protected industries, Consumers Councils should be given a statutory representation on the management and their functions be laid down by the State.

The most important disadvantage of protection is that it entails a burden on the consumers through higher prices. In order that this disadvantage may be reduced to the minimum, it is necessary that the State may consider the view points of both producers and consumers before considering the nature and extent of protection which an industry needs.

(4) There must be definitely a policy of limiting devidends to the minimum possible level in the case of protected industries. From past experience, it appears that such a condition was not laid down in future in order that the burden of protection may be reduced to a minimum, the legislature before granting protection should impose a condition for restriction of dividend. It would be anomalous that a protected industry should receive State assistance at the cost of the taxpayers and declare heavy dividends to the share-holders.

(5) The remuneration of managing agents and other expenditure which ordinarily may be permitted in the case of non-protected industries should be carefully regulated and duly scrutinised in the case of protected industries in order that prices may not be increased beyond a certain level and the incidence of protection may be reduced to a minimum.

(6) Statutory conditions must be laid down in the case of protected industries for the building of reserve funds which may be utilized by the industry in the lean years which may follow after the expiry of period of protection. The history of the Cotton Industry in India shows that the industry did not build up adequate reserve funds and suffered terribly in a period of depression. For example, during the eight boom years, 1915-22, the Cotton Industry in Bombay was in such a prosperous condition that it paid a sum of over Rs. 50 crores on dividends which worked out on an average to 53 per cent. per annum on the paid-up capital.

In the case of protected industries, the payment of wages must be regulated by the State, so that neither there should be a case for exploitation of labour nor as a result of labour-strikes, production may be stopped and the burden on the consumers, as a result of it be increased. It is highly necessary that strikes and lockouts should not be permitted in the case of protected industries.

(7) Protected industries should also be inspected periodically to find out the efficiency of their working. After all protection is based on the plea that the domestic industry is not able to face the foreign competition on account of higher cost. Hence one of the conditions of protection must be that the industry should rationalise itself and reduce its cost so that it may be able to face world competition at the earliest possible opportunity.

(8) The products of such industries which are receiving protection should be at the disposal of the State for distribution at fair prices. One of the most important evils in the present economic structure of the country is that on account of the lack of a proper agency for distribution, consumers pay heavy prices, e.g., even though some industries receive protection, the distribution has been entirely left to the discretion of the producers. There are some instances where the producers under the working of normal economic forces reaped heavy profits at the cost of consumers. The State also lost revenue due to such unearned increments in the value of products. It may be laid down as one of the most important conditions that, before an industry is granted protection the distribution of its products must be regulated by a policy formulated and laid down by the State.

The cases of cotton and sugar industries may be cited where prices increased and as a result of which, the stocks increased in value and neither the State nor the consumers received any benefit out of it.

In concluding the above conditions, I would reiterate that in the case of protected industries, the production and distribution of the product must be regulated and carried out by the State. The State should not be spectator having no voice in the affairs of the industry. Protected industries entail a burden to the State, the consumer has to pay a heavy price and as such greatest vigilance should be exercised by the State in the interest of the common man of the country.

Question 39.—I suggest the following priority :—

1. Industries owned and managed by the State should receive the first priority in the grant of protection.

2. After such industries, the claims of such industries where the State is working on a partnership basis be considered. For example, the Ship building industry.

3. The cases of other industries which do not fall in classes 1 and 2 mentioned above may be considered provided they are subject to thorough State control and management in their policy.

Question 40.—No industry should be considered for protection till it is fully established and its cost of production could be analysed and scrutinised for purposes of protection. Protection is always based on a comparison of home price with foreign price. If the industry is not in existence it is impossible to find out its home cost of production, if protection is granted to such industries, it would be a leap in the dark and may result in a heavy burden to the consumers.

If the cases of such industries in interest of the nation at large are to be considered at all, they should be entirely State owned and managed. Industries functioning under private enterprise should never be considered for protection before they have fully established themselves.

Question 41.—The normal method of protection should be a protective import duty. Bounties or subsidies should only be granted in the case of such industries the product of which is essential for other industries and would thus raise their cost of productions, e.g., Iron and Steel industry.

In view of the low revenues of the Government of India in comparison with other countries where bounties and subsidies were granted to a larger extent, they should not be ordinarily utilised as they would burden both the consumers and nonconsumers of the product by the payment of additional taxation necessary for bounties. Import duties ordinarily burden the consumers.

To the methods mentioned in Q. 41, I would add one more, namely qualitative restriction of import. Such restrictions may be necessary and desirable if the intention of the legislature is to grant protection only to a part of industry producing a certain quality of goods and not the whole industry.

Question 43.—The question of export duties should be considered (apart from cases mentioned under (b), 1 and 2 of this question), from the point of view of the balance of payments position and the necessity for earning hard currencies.

Question 46.—The duty should vary with variations in import cost; a careful watch should be kept on the movement of prices in foreign countries of the industries against which the domestic industries are receiving protection.

This is possible now as in most of the important countries the Dominion has Ambassadors and Consuls. Indeed, it should be one of the functions of the Trade Commissioners to inform the Government of the movement of prices of the protected industries to enable the Home Government to base its policy.

Question 47.—The main considerations in the choice of a specific form of protection should be :—

1. Administrative convenience,
2. Stability of rates and absence of ambiguity,
3. Government revenue, and
4. The point of view of protection.

The alternative form would naturally vary with the type of the industry receiving protection.

In case specific duties are imposed, the State should fully explain the actual burden of the duty to the public, as, in the case of such duties, men with expert knowledge definitely enjoy an advantage over other in envisaging the full implications of the duty.

Question 49.—The minimum period should vary between three to five years. The maximum duration for protection should not exceed ten years.

In each case, the industry should be subjected to annual examination to find out the progress made by it in rationalising itself. In no case should an infant industry be allowed to remain an "infant" all its life.

Question 51.—The long term objective of the Industrial policy must be based on the consideration that a major sector of our industry would be owned (partly or wholly) and managed by the State. Under such conditions, the interests of consumers and producers would be harmonised as the profits of

the industry would form a part of the State revenues and would not be distributed as gains to the shareholders. Moreover, the consumer may be prepared to share the burden of an additional duty if he has the hope that in future the profits of the industry would enrich the nation. It is a poor consolation to the consumer that protection would industrialise the nation and increase its national dividend as increased production without adequate arrangements and safeguards for a more equitable distribution of wealth, ordinarily, increases the gulf between the rich and the poor.

The second objective which may be kept in view in the long term fiscal policy should be to improve our balance of payments position which indeed is the crux of India's economic problem. An export drive of some of our products, which may need protection to-day but would ultimately capture market abroad, may also be kept in view in the long term programme.

Whatever methods we may employ in our fiscal policy and however high the hopes we may entertain, it remains true, unfortunately that our efforts and hopes may be defeated unless means are adopted to reduce our cost of production. It would be absurd to maintain that we can continue to adhere to the existing level of money-incomes irrespective of the value of the money. A long term fiscal policy may take into consideration :—

1. Reduction of salaries and wages,
2. Effect of devaluation,
3. Tariffs plus bounties, and
4. Trade pacts and treaties.

Unless the internal cost structure is cut down and the volume of inflation reduced, a long term formulation of a tariff policy cannot be thought on scientific lines.

The third objective of the tariff policy may be that the gain from it must, as for as possible, go to the State. This is possible if the State sets up institutions to participate in the foreign trade of the country.

Question 52.—The objectives of tariff policy would be greatly facilitated if the State sets up a big public corporation to undertake the task of carrying out the major portion of the export and import trade of the country. It may be a purely Government organisation or a quasi-Government institution in which the exporters and importers and Government may participate. Never before in our country was the need for such organisation more important than it is today when huge wind fall fortunes are made by exporters and importers as a result of variety of factors the course of which is difficult to envisage. For example, as a result of devaluation the importers and stockists of dollar goods made over-night fortunes without their benefit being shared either by the State or by the consumer. If the State were controlling the major sector of the foreign trade of the country, the profits would have gone to the State revenues without making the rich richer and causing a burden to the common man in the country. The possibility of starting a Corporation on the lines of U.K.C.C. which functioned during the war may be examined to facilitate the underlying principles and objectives of a tariff policy either in the short or long period.

Question 53.—The organisation may be a Government or a quasi-Government organisation, the capital of which may be subscribed by :—

1. the State (51 per cent.),
2. exporters and importers.
3. the public.
4. various institutions, *e.g.*, Port-trusts and Corporations (Calcutta, Bombay and Madras).

The limits of its activities may in the beginning be confined to those items in our exports and imports which figure prominently in our foreign trade. To give one example, the entire oil trade may be a State monopoly for reasons of national policy, elimination of middlemen, and increased revenues to the state.

SHRI C. R. SREENIVASAN

The stock-exchange provides the barometer reading to industrial life. The barometer has been continuously falling these two years. Value of equity shares has dropped in a manner and measure calculated to frighten lingering investment demands. Few new floatations have been possible and no broker is willing to underwrite the issue of new capital even for proved companies. The fact that Government have not come forward to borrow in the market even by way of treasury bills tacity recognises the dismal conditions that rule in the money market. Many reasons have been adduced for this unfortunate and undesirable development. Not one of these by itself is sufficient to produce the conditions that prevail but it cannot be denied that every one of these has contributed to the result. It looks as though a psychological malaisse has been induced by the unsettled and unsettling conditions that continue to prevail in the country.

The change-over from war to peace economy under conditions of short-supply of many essential goods, exposed to pent up demand, has led to uninformed and unintelligent control and let in corruption in many forms at many stages. The reconditioning of the country's economy following partition has thrown up many problems which are yet to be resolved in any satisfactory measure. The established industries of the country are forced with many problems in regard to replacements, raw materials, labour costs, distribution channels and controlled sales. Incentive to private enterprise has been seriously affected by lack of clarity or coherence in state policy, as illustrated by the proposed amendments to company law, industries control bill and labour tribunal awards. While venture capital is virtually on strike, investment capital, normally integrated from savings of fixed income groups in urban areas, has been getting scarce under the twin impact of high cost of living and heavy incidence of tax.

In the result of vicious circle has been created from which people look to Government and Government look to people to break. That should be broken in common ground. Ideological conflicts imported in an already complex situation must be resolved first and obviously the initiative here lies in Government hands. The time to set bounds to private enterprise or seek to control it to any extent is not yet come. There is ample ground for the state to cover many fields beyond the resources of private enterpirse which should keep Government busy for many decades. Nationalisation in the context is therefore not a live issue and to canvass it under present conditions is calculated only to import heart without light into the discussion. The state has an inalienable right to nationalise any industry or enterprise in any emergency of war or peace. The climate for enterprise to flourish should first be created and it is only when production recovers its equilibriums and moves up to competitive standards that question of distribution of profits of enterprise *inter se* should engage attention. To this end the business profits tax should go, dividend limitation should go, Industries Control Bill should be dropped, Company Law Amendments should be delayed and drastically revised and Labour Awards should be linked to output per man hour.

When venture capital comes out, the next problem of creating and canalising investment capital should engage serious attention. Income tax particularly on the middle income groups, should be substantially reduced to afford opportunity and incentive to saving. It may involve some embarrassment to Government at the moment but on a long view it is both necessary and desirable. There is also more money in rural areas than in urban areas, among agricultural rather than industrial classes today. But no machinery has been devised yet to integrate and canalise them for national purposes. Ways and means must be set in motion to gather the small and neglected savings potential scattered over the countryside. It is a mistake to imagine that foreign capital will take risks that indigenous capital is not disposed to take. Further foreign capital can and should supplement and not supplant indigenous capital. Such capital also is not to be woed and won. It is only

when such capital offers itself for remunerative employment and seeks opportunities for investment that a fair deal is possible. The finance for large scale projects must be sought at inter-governmental levels and may be confidently expected to be available when private enterprise finds free and full scope.

In the field of commerce a regrettable development in recent years has been the sort circuiting of established trade channels and improvising new ones presumably to stop profiteering. The remedy has proved worse than the disease. Men without experience and resources are trading licenses and permits and the burden of the new found link has fallen heavily on the consumer. The question of the state trading again is now being seriously canvassed to make confusion worse confounded. It would be wise for the Government with its limited resources and with serious problems to face, to abandon schemes of this character and confine its rationing and control activities to established trade channels in public interest. Frequent changes in import restrictions have introduced and element of uncertainty and concern among trading circles to the detriment of consumers' interests. These disturbances should be reduced to the minimum.

On the food front also the battle must be won on the psychological front first before production drive yields any substantive results. The emphasis on scarcity in recent years has created a widespread fear complex among the community with the result that minimum reserves are being kept in millions of homes and all that is produced does not find its way into the market. Procurement effort with its uneven incidence and inadequate resources has but added to the burden of distress among the poor and the needy. In short term results it would be wise to concentrate more on intensive rather than extensive cultivation. Fragmented holdings do not land themselves to mechanised farming and efforts to gear up the cooperative machinery for this purpose can yield no immediate results. With the limited resources at the disposal of provincial governments better results may be looked for from minor irrigation works, seed selection and manuring. The Government of India may take up the financing of big irrigation projects as and when funds permit or loans are available on a time schedule. It is not wise to engage on too many fronts in this respect and haste can only lead to waste.

SIR SHRI RAM, NEW DELHI

PART II

Question 89.—Yes.

Question 90.—I should say, *prima facie*, yes; but only actual experience can confirm or refute this impression.

Question 91.—Does not arise.

Question 92.—Yes.

Question 93.—Yes.

Question 94.—Does not arise.

Question 95.—I do not expect any injurious effects on our trade and industry in the short view. As regards the effects in the long run, I am not sure if it is possible to do other than consider the matter *a priori*, and in that view I do not see why our trade and industry should be adversely affected.

Question 96.—My answer to this question based purely on commercial and industrial consideration is in the affirmative; but I can conceive of political or international considerations which may justify delaying such adherence, and on that aspect of the question the Government should be the best judge.

Question 97.—Does not arise.

Question 98.—I note that India will have a permanent seat in the executive Board as one of the States of chief economic importance.

Question 99.—The answer to the first part is 'Yes'; the second part, therefore, does not arise.

Question 100.—I agree with the principles referred to in paragraph 5 of the note prefacing Part II of the Questionnaire and appreciate that in giving effect to these principles a certain degree of bargaining and compromise is inevitable. Moreover the Agreement is open to revision in December 1950. I do not, therefore, propose to go into the details of these concessions already settled provisionally.

Question 101.—I think it is much too early to form a conclusion on this matter for, especially, in the extremely unsettled conditions of to-day, it is difficult to separate the different causes that give a rise to fluctuations in trade.

Question 102.—I have no remarks.

Question 103.—I have no remarks.

Question 104.—I feel that there should be a very careful preliminary examination about the middle of 1950 before the existing Tariff concessions are continued beyond the 1st January 1951.

General

If I may say so without impropriety, I think that our fiscal policy should be practical and realistic, not academic or ideological. I strike this note of warning partly in view of the present political atmosphere with its emhpasis on abstract ideas and partly in view of the somewhat academic colour of some of the questions put.

The object of fiscal policy, apart from having to raise revenue, is twofold. (a) internally, to achieve better distributing justice—this is done mostly by direct taxation or consumer subsidies or State Welfare Services—and (b) externally, to reconcile the conflict between the immediate interests of the consumer, which free trade might and often does help, with his remote and ultimate interests, if not as consumer, at least as a citizen which free trade, very often, does not. And it is with (b) that this commission will presumably be concerned.

I do not attach much value to statistical research into what has happened since 1922; for, (a) even under reasonably normal conditions, it is seldom easy to disentangle the effects of tariffs (it may be relativly more easy in the case of producer subsidies) from the effects of other economic forces, and (b) the greater part of the period since 1922 has been abnormal. The immediate future also must be taken to be abnormal, and a special warning is, therefore, necessary against entangling ourselves in conjectural and, therefore, undependable, even if not deceptive, statistics. It is not, however, my intention that statistical studies should not be attempted at all.

Arguably, at least a rough plan of the desired economy of the country should logically precede any attempt at a fiscal policy but, from a practical aspect, this is not a serious objection, for the exploration by this Commission nay itself help in the better formulation of a plan of the country's future economy.

From a practical aspect, a sound protective policy which properly balances all interests will have to confine its protection to cases of : (a) strategic industries—may be even on a permanent basis; (b) nascent or possible industries with protential strength for reasonably long periods : and (c) anti-dumping emergency—obviously on a temporary basis.

I think, therefore, that the policy laid down in 1922 was at least in its broad outline sound and does not need any radical change. The changes made in 1945 were in the right direction. Were it not for the unfortunate use in 1922 of the ambivalent word 'discriminating' which lent itself to punning, and for the Ottawa Pact and similar dubious acts which justified the play on that word, and the free use of this pun in political discussions, very often by persons who did not realise the pun, that policy would not have been associated in the public mind with anything seriously wrong? In other words, if anything was wrong, it was the misapplication of the policy—not the policy itself.

There is also a feeling today that there is no machinery at present to study the effects of protection given to specific industries from time to time. Such machinery should be created, and also machinery for inspection, technical advice and assistance by way of study of export markets and so forth.

Today India definitely needs a protective policy. I am aware that a large section of opinion in this country would welcome foreign capital, but I do not share that opinion. Obviously, foreign capital will not come in, if it is subjected to onerous conditions. On the other hand, foreign interests, once planted inside a tariff wall, can easily circumvent the usual restrictions applied to foreign capital, which, I take it, will also be applied in India, viz., the limit of shares to be held by aliens, quickly training local technicians, liability to be acquired by the State on payment of compensation and so forth. These problems cannot be solved merely by legal formulae. But there is one aspect which I think needs special examination. Foreign interests can establish themselves securely inside the tariff wall and slowly swallow the smaller local concerns. This can happen in any industry, but I can think at once of sewing machines, bicycles, machine tools, in fact most engineering industries and also certain basic chemicals. If foreign capital is allowed to come in, this risk must be provided against.

I would make two concrete suggestions : (i) foreign capital should not be allowed on a scale bigger than would be sufficient to meet half the difference between the estimated consumption of India on a conservative basis and the existing local production—the other half being reserved for local capital—and (ii) foreign concerns manufacturing in India must be under obligation to sell at fair prices to local Indian manufacturers essential raw or processed materials or parts.

I do not, at this stage, attach much importance to the danger of local and foreign concerns jointly, through cartels, exploiting the consumer; for the remedy would be more or less the same as in cases of monopolies created by excessive protection; and monopolies in non-protected industries, which seek to oppress the consumer, would, probably, be fit industries for nationalisation.

Question 1.—Yes. Quite apart from idealogical changes, particularly the increasing desire for and faith in a planned welfare State, there have been two outstanding factors, namely, (1) the partition, into two political units, of what Nature clearly intended to be a single economic unit, and (2) the persistent and immense increase in population unaccompanied by a corresponding increase in the indigenous food supply. Incidentally, international developments since 1922 point, in my opinion, to the greater need of India to be self sufficient today not only in respect of food but in respect other things also, than in 1922.

Question 2.—This question is primarily statistical, and I do not propose to go into it.

Question 3.—The partition of the country has already deprived India of a substantial part of two important and essential raw materials, namely, jute and staple cotton; and while, on a long view, these materials can be grown in India to a greater extent than at present, the dependence on Pakistan, in the shorter view, must obviosuly affect the industries concerned, especially during periods of strained relations. Similarly, the shortage of local food supply can weaken the bargaining power of our exports, especially in critical times.

Question 4.—India must become self-sufficient in the matter of food. This can be done by utilising industrial and indigenous resources such as green manuring and proper use of nightsoil, city refuse and farm yield manure. The burning or washing away into rivers or seas of valuable manures should be stopped. Green manuring should be intensively resorted to. Greater importance should be given to wells, ponds, etc. Too much stress should not be laid on reclamation, etc. and a fetish should not be made of this. First preference should be given to crops which are raw materials for Indian industries and which bring foreign exchange. By increasing high yielding crops India's food requirements can be easily met. The great problem, which is not really an agricultural problem but all the same is the cause of creating shortage of food, is the non-destruction of useless cattle, like monkeys, neelgayas, destructive birds, etc., etc.

Incidentally, our forests need a more rational policy, not only as a source of wealth in timber and other forest products, *e.g.*, lac myrabolan, mahua, etc., but as a help to agriculture, *viz.*, village forests providing fuel, cheap timber, leaf manure and pasture.

As regards mining, the most important mineral for industry is coal, which, it is hoped, will not only be extracted on a conservative, scientific, and long-sighted plan with due regard, among others, to metallurgical needs, but be transported on a rational basis without regard to provincial jealousies and with a view to minimise the cost to the country's industry as a whole.

Though not a very important mining industry, the exploitation of pyrites of different kinds should, in my view, be undertaken on an extensive scale and immediately; for the entire Chemical Industry of the country is today dependent solely on imported sulphur. Our resources in Nickel, Lead, Tin, Copper, etc. should be also developed.

Question 5.—I think that, on the whole, the major industries in this country have progressed substantially since 1922, though not to the extent they might have, if, during the recent war, steps had been taken to develop industries as was done, for example, in Australia. Compared to European and American countries, India has no doubt lagged far behind in the last 30 years. Today, there is no doubt a general malaise in India, shown in the decreasing productivity of labour. Recent instability in the Government's fiscal policy has somewhat added to the difficulties of industries. I will now pass in review very briefly the major industries :

Iron and Steel.—Not only have Tatas extended their capacity since 1922 but two other concerns, namely Indian Iron & Steel and Steel Corporation of Bengal have come into existence. There is need for very much more steel and iron in the country.

Cotton Textiles.—This industry is much stronger today than in 1922. The country is not only self-sufficient but can supply markets abroad. The fly in the ointment, however, is the inclusion in Pakistan of staple-cotton-growing areas.

Sugar.—This industry expanded at a much higher speed than had been expected. Over-production and price-cutting led to the formation of the Indian Sugar Syndicate; but before the Syndicate could function for long, the war came. The industry is again in a difficult position now largely because of the high price of cane, which is necessarily linked up with the high price of food-grains and also because of uneconomic allocation of certain factories. For various reasons, the future of the industry needs close watching for some years more.

Cement.—The cement industry has been growing and can grow much further, for there is so much of arrears of demand not only from civilian needs but from the Government programmes of dams, roads, etc., and the programme of industrial expansion.

Paper.—This industry has expanded substantially, but its further expansion is limited largely by the supply of raw materials.

Matches.—This industry also has very considerably expanded in the last 30 years. Incidentally, there is a moral to be learnt from this success to which I shall refer later, *viz.*, the need to protect the local minnow from the foreign whale. Side by side with the large scale factories, a cottage industry also flourishes. The other industries are comparatively less important, and many of them, which were brought into existence during the recent war, will probably need to be backed and developed, *e.g.*, machine tools, basic chemicals etc., both light and heavy.

Question 6.—(a) I think there is a very heavy deficiency in respect of basic and heavy industries generally, namely, ship-building, aircraft manufacture, railway locomotives, basic chemicals, metallurgical industries—both ferrous and non-ferrous, particularly special kinds of steel, dye stuffs, distillation of coal, etc.

There is one item, however, to which, in my opinion, sufficient attention has not been given, namely, the exploitation of pyrites. In my opinion, it is very important, in view of the dependence of the Indian Chemical Industry on foreign sulphur, now-a-days chiefly from America. Similarly, I think we should develop our sources of Nickel, Lead, Zinc, Tin, Phosphorus, etc., so that when foreign supplies are cut off we are not helpless.

(b) The reasonable requirements of India in respect of the various important and essential industrial products may be seen from the reports made by the various Committees, nearly 30 of them were appointed about 3 years ago by the Industry & Supply Department of the Government of India. It will be necessary, however, to make adjustments in the figures on account of the separation of Pakistan. It should also be remembered that usually consumption varies inversely with prices.

(c) Comparative statistics in regard to operative and overhead costs are scanty, but it is well known that our labour cost per unit of production is higher than in most of other countries. I think that our cost on overheads also is high.

(d) The passing of industries in recent years, on a large scale, into new hands, without experience of industrial management, may have impaired the quality of management somewhat, but the urgent need in the country for bringing down costs of production will, it is hoped, operate in the other direction.

(e) There is no capital available today, because (1) 'white' money is non-existent, thanks to heavy taxation and high cost of living, and (2) 'black' money will not come out, except to buy consumption goods or bullion or precious stones.

(f) We badly need more power and at much cheaper rates which the projected Hydro-electric schemes will perhaps supply. I have already referred to our problems in respect of cotton, jute, and sulphur.

(g) High grade technical ability of the academic kind is available, and can be quickly increased in response to greater needs; but the ability based on judgement and practical experience can grow only side by side with industrial expansion.

(h) & (i) An urgent need in this country is the better education of skilled labour and inculcation of a better sense of responsibility—particularly of the foreman or mistri class.

Questions 7 & 8.—On the production side of the country's economy, next to the food problem of this country is that of finding work for the enormous surplus population in the countryside. Only a small fraction of this population can be absorbed in large or medium industries, even if the country could solve the problems of urban housing, sanitation, etc. that would arise; and, obviously, the best plan is to absorb this surplus in cottage or small scale industries. For convenience, I shall hereafter refer to small and cottage industries as interchangeable terms.

Some of the Provincial Governments have made enquiries in comparatively recent years into the cottage industries in their areas and the result of these enquiries may be seen.

Cottage industries have given way before large scale industries chiefly because of (a) the cheapness of the products of the latter, (b) changes in fashions, often the result of (a), and (c) the specious attractions of the towns, combined with the growing restlessness and the weakening of the general moral fibre. The competition has been unequal, because (i) cottage industries lack cheap power—which must await extensive rural electrification; (ii) they also lack cheap and efficient tools, including small machine tools—this again is not incurable; (iii) for want of organisation they get their raw materials in uneven quality and at very high prices; (iv) they have no organisation for finishing, packing, or checking qualities; (v) they lack finance and marketing facilities—there is a wide field for Co-operative Societies here; (vi) the hereditary skill of workers has to be re-educated and adapted to modern tools and use of electric power—this will not take long; and (vii) till recently, large industry which created expensive urban problems did not always pay for them in full—but this is a thing of the past, and the future will more likely throw the balance on the other side.

The competition would not be unequal in so far as large scale industry produces artistic goods at prices much cheaper than what cottage industries can produce even under the most favourable conditions. But more than anything else, unless conditions in villages are made less dreary and at the same time the general craving for shallow excitment in the towns becomes less infectious, the revival of cottage industries will not be a simple matter. We must not deceive ourselves on this matter. If Japan succeeded in this, it was because of the better standards of life and character all round in that country, achieved over a long period. To take only one aspect, producer-co-operation, on which cottage industries must depend, has been highly developed there; in India, on the other hand, except to a limited extent in respect of Credit Societies, the co-operative movement has been a complete failure.

The establishment of a proper balance between cottage industries and the bigger industries will not be an easy matter, and will require all the efforts of Government; and, in particular, it will need a large number of Government servants with an entirely new outlook.

Basic and heavy industries must obviously be a large scale; and the real conflict and overlapping is between medium industries and cottage industries. To the extent that it is administratively feasible, the State should discourage such overlap by rapidly creating conditions in favour of the cottage industries. *viz.*, rural electrification, cheap and good tools and machine tools, co-operative financing etc.

Question 9.—Cottage industries can be of such a diversified nature that it is neither possible nor expedient to establish any necessary relation between them and agriculture. Some of them could be part-time industries for agriculture during the off-season, while others might be whole time, whether based on a local agricultural product or not. The day-to-day local needs are so

many and so varied *viz.*, pots and pans, mats, baskets, cloth shoes, simple furniture and so forth. Local facilities, whether of traditional skill or of particular raw materials, should be exploited to the utmost, and through well organised co-operative finance, supported by Government, both production and sale should be financed, so that centres of skill or tradition can supply fairly wide areas. As adjuncts to large or medium industry, I can think of assembling bicycles, perambulators etc., hand-looms driven by electric power, light engineering jobs, and making of domestic utencils.

Question 10.—Suitable items for export would be fancy things of a superior artistic quality like brass-ware, ivory and wooden carvings, rugs and bed-spreads of superior kinds, embroidered goods etc.; it is all a question of creating particular markets abroad with a trained taste and adequate purchasing power.

Question No. 11.—No.

Question 12.—See my answer to questions 7 & 8.

Question 13.—I cannot say.

Questions 14 & 15.—I am not sure whether much will be gained, by a postmortem examination at this stage as to the various acts of the old Government. As already stated in my general remarks, the Government of India's attitude after 1934 was visibly different from its attitude before. Apart from the Ottawa Pact, which, probably, scarificed to some extent the interests of India, I can think of nothing else.

Question 16.—While every one recognises that the policy of a Government should be fairly clear, it is, I think, wrong to take such recommendations of Commissions and Committees as though they were statutes and try to construe their words strictly and do a lot of hair-splitting. I think the conditions referred to by the Commission were, *prima facie,* all right. It is true that they did not refer to cases of protection "in the national interest", but such cases, I should have thought, were to be taken for granted, for the simple reason that in any country and at any time, the ultimate national interest, taking all aspects into account, must be the overriding consideration in any important matter. Again, I am not at all sure whether the additional conditions with reference to "natural and economic advantages" referred to in the terms of reference to the Tariff Board, 1945, are really more than a paraphrase of the first condition laid down by the Fiscal Commission of 1922. What is needed is a broad-outlook in disposing of cases as they arise-and not skill in draftsmanship and in producing verbal formulae of pretentious accuracy.

Question 17 *to* 19.—In view of my remarks on earlier questions, I have nothing to say.

Question 20.—I have no remarks.

Questions 21 & 22.—These questions, which are primarily statistical, are evidently for the appropriate industrial organisation to answer.

Questions 23 & 24.—I have only two remarks to offer in this connection; (1) The Matches Industry, started under foreign auspices has tended to be monopolistic, and this tendency is, I think, inherent in every industry which is in a very young stage within the country. When a powerful foreign firm in the same industry comes into India and gets the shelter of the Tariff, it is true that even apart from the Tariff, bigger units within the country can absorb the smaller ones; but this tendency is very much more pronounced in the case of big foreign concerns coming inside the Tariff wall. (2) protection given through Customs duties alone cannot disperse industries in different parts of the country, which may otherwise be desirable. A subsidy, on the other hand, can be effectively varied from place to place with a view to secure such dispersion. It is, of course, an entirely different matter whether in a particular case, having regard to all the relevant factors, protection should take the form of a subsidy or of Customs duties.

Question 25.—I have no remarks.

Question 26.—To the extent that the major industries of the country have benefited during the last 2 or 3 decades from the policy of protection, they have, I think, on the whole, improved the quality of their technical personnel

and also of that of labour. There is little doubt that on the whole the average technical quality, both of supervisory staff and of labour, today is much higher than 20 or 30 years ago.

Question 27.—Both in the Cotton Textiles and Sugar Industries, I know that progressive firms have initiated research.

Question 28.—There is little doubt that the high revenue-duties from 1930 onwards must, to some extent, have given a fillip to the development of local industries; but there is no readily available means of correlating these revenue-tariffs with the development of industries, statistically or otherwise. Nor can I give any examples.

Question 29.—In the absence of sufficiently reliable figures of the magnitude of domestic trade, it is not possible to discuss this matter statistically. During the early thirties and in fact almost till the war, the balance of trade of the country was unfavourable, and we were balancing the trade by the continuous export of gold which had been accumulated over many decades.

Question 30.—One of the standing complaints of industry in this country was that the Railway Rate policy favoured the importer rather than the industrialist; but this charge was not accepted by the Railway authorities. Anyway, I am not sure if anything will be gained by going into the merits of the dispute now.

Question 31.—I think the conditions of international trade in the world are still too unstable to justify basing our policy on any inferences to be drawn from the vicissitudes of trade in the last decade.

Questions 32 *and* 33.—I have no comments except that the frequent changes in policy (which may have been inevitable on other grounds) have upset the calculation of the industries affected by changes in Import & Export policy.

Question 34.—(a) The present difficulty in the country in the way of industrial development is not so much unfair competition from abroad, as the acute shortage of capital, the very high cost structure of production and the low productivity of labour and in two major industries, namely, jute and cotton, the problem of raw materials. Until these problems are satisfactorily solved, the question of Tariffs may well remain in the background. The present excessive rate of direct taxation should also be substantially brought down, if there is to be any incentive for industrial expansion.

(b) It will be necessary for Government to solve the problems referred to above. In addition, active steps should, I think, be taken for the training in a short time of a sufficiently large number of a superior class of foreign and to improve the productivity of labour, which has actually fallen. It is largely a matter of establishing good relations between labour and the management the maintenance of discipline and of good standards of work.

Question 35.—I have no remarks except that, on a long view, it will not be the advantage of India to maintain high prices locally and sell our goods abroad at low prices.

Question 36.—I think that the Government might for the time being follow the present policy which regulates the Tariff Board.

Question 37.—On the whole I agree with the minority with certain reservations.

Question 38.—I have already answered this.

Question 39.—Yes. In the case of these industries in which the local minnow may be swallowed up by the foreign whale, some protection is necessary to save the minnow. This may have to be non-fiscal.

Question 40.—I am strongly of opinion that protection should be promised to industries yet to be established, if they otherwise satisfy the requisite conditions.

Question 41.—My answer to this question is indicated in part (c) of the question. I should, if possible, prefer a bounty or a subsidy; but, unfortunately, except where the product is confined to a few standardised types capable of easy testing and measuring, a bounty is administratively not workable. Again, a system of 'pool' prices can work only if a few manufacturers and importers

are involved. The quantitative restriction of import based on a guaranteed market for domestic production can be justified only temporarily, while domestic production is setting its house in order.

Question 42.—State trading might be the best solution. Otherwise, the policy and procedure may continue as at present, namely, the levy of countervailing customs duties for so long as may be necessary.

Question 43.—Export duties are difficult instruments to handle and should not be resorted to except when, as in the case of jute when India was undivided, the country has a practical monopoly or even a temporary monopoly. Except as a measure of emergency in the national interest, for example, in order to further food production or in connection with the regulation of Foreign Exchanges, I would not advocate Export Control. It is unfair otherwise to try to benefit the domestic industrialist at the cost of the exporter. It would be more straightforward to give a subsidy to the domestic industrialist.

Question 44.—I would automatically exempt all industrial products (except of a monopolistic nature) from all kinds of duties whether under the Customs, Tariff or otherwise, except of course that the profits of exports would ordinarily be liable to Income-tax.

Question 45.—No.

Question 46.—No, except (1) in the case of countervailing duties against dumping and (2) when the Tariff Board or other body watching the situation suggests an immediate change in the duties.

Question 7.—The primary consideration must be administrative. In the case of a commodity which is bulky and does not vary very much in value, a specific duty is always better, but in the case of a high-value commodity which moreover fluctuates in value, the *Ad valorem* duty is better. But the latter is more easy to abuse. Sometimes, practical convenience may suggest a composite Tariff.

Question 48.—They are very useful in emergencies.

Question 49.—I think protective measures should be for specified periods, for about 10 years as a rule, after considering the recommendations of the Tariff Board on the condition that efficiency is increased, cost of production lowered and quality improved.

Question 50.—I have no remarks.

Question 51.—Our long term fiscal policy should, I think aim at a reasonable self-sufficiency in regard to most of the ordinary consumer goods, and as much self-sufficiency as possible in respect of basic and heavy industries. As regards food, we must not only be self-sufficient but a little in surplus. It is all, ultimately a question of the rate of discounting the future. To what extent should we sacrifice the present advantages for the sake of better advantages later? The problem is very much like that of savings. India, however, is so vast and its potential so great and varied that it is possible to reach a high degree of self-sufficiency, without paying too high a price for it.

Question 52.—Whether Government or quasi-Government institutions should participate in foreign trade is, in my view, a matter to be determined not on abstract grounds but on parctical considerations from time to time. All that I can say is that in the immediate future it will not be advisable for Government to take up such trade on a large scale for the simple reason that it is not even partially equipped for it. An exception would be the trade with Pakistan for some time.

Question 53.—Does not arise.

Question 54.—As regards the short period, I have already answered this against question 34. As regards the long period, I think the Government should actively encourage industrial research and higher scientific education in the country generally, and more particularly education in Engineering and Chemistry. It should also develop the sources of essential raw materials.

Question 55.—No, except that (1) I think the Provincial Governments should be told not to tax either coal or electricity consumed in industry—At the moment there is almost a stampede among local Governments and local Authorities to tax these things because they are all in serious budgetary difficulties—, (2) raw materials should not be taxed at any stage, (3) the Railway Rates Policy should be re-examined, and (4) there should be machinery for standardising and testing exports.

Questions 56 *and* 57.—No remarks.

Question 53 *et. seq.*—I think that the idea of Imperial preference as such must go. I do not, therefore, propose to answer the detailed questions.

Question 66 *et. seq.*—I consider that protection must in all cases be temporary, *i.e.* till the need for protection ceases. Vested interests, in heavy capital unwisely sunk, must not be allowed to grow. If, within a reasonable time (say) 15 or 20 years at the most, an industry is unable to dispense with protection, obviously there is something *prima facie* wrong in the industry, and *prima-facie* it should not be protected unless, in the national interest, *i.e.* industries basic for the armament industries and so forth or industries guaranteeing some rare materials during war, it is considered expedient to maintain the industry at any cost, and, at the same time, it is not considered expedient to nationalise it. Since ordinarily the object of protection is to enable the local industry to set itself up in sufficient strength to resist competition from abroad, I think that, while Government should give such industry every help and facility in the shape of technical advice, transport, supply essential raw materials and stores etc., it should not impose meticulous conditions about price policy, wages etc. Interference in such matters, however well-meant, does more harm than good in most cases; and straight-forward nationalisation might well be the lesser evil. Anyway, unless the Industry itself adopted a proper policy in respect of prices, wages, technological improvements etc., it would not be able to stand up to competition. If, on the other hand, the industry is short-sighted and does not, of its own accord, discharge these implied obligations, it will forfeit its claim for further protection, which might otherwise be given to it. The real thing to safeguard against is in respect of those cases where, owing to subsequent developments, the protection already given becomes excessive, and, obviously, the only remedy in such cases is to ask the Tariff Board to make further investigations and to withdraw or curtail the protection already given. There should, however, be a systematic and close inspection by competent Government officers on behalf of the Tariff Board to ensure that protected industries do in fact increase their efficiency, bring down costs and improve quality.

Question 69.—I think that the question of protection should not be mixed up with the question of standardisation and control of qualities. Force of competition coupled with increasing intelligence amongst consumers will, more or less, automatically lead to standardisation and better control of products. Obviously, organisations for control and standardisation should be predominantly professional and technical.

Questions 70 *and* 71.—Already answered.

Question 72 *et. seq.*—I think, under present conditions, for many more years to come, it will be an advantage for Government to have a Planning Commission or some other body of that type to co-ordinate the various plans of development of the country, but the existence of such a Commission will not dispense with the need for a Tariff Board. Similarly, if it becomes necessary to exercise closer control over industries generally—not merely protected industries—another body for that purpose may also be set up. Any way, we must not lose disproportionate time and energy in the settlement of problems of mere organisation, but should get things going.

Question 77 *et. seq.*—I agree with the views of the Commission of 1921-22.

Question 80.—I do not suggest any change.

Question 81.—There is a feeling, rightly or wrongly, that the Tariff Board is not of sufficient permanency and does not have enough staff and equipment for the discharge of its duties; but I may be wrong in this respect. The Tariff Boards now-a-days seem to get through their enquiries more quickly than their predecessors did, but even so, it is, I think, desirable to expedite the enquiries further.

Questions 82 *and* 83.—I should imagine that the object of the present procedure is to discourage frivolous applications. But I do not see why there should be any objection to the Tariff Board making recommendations *suo motu* in a particular industry, even without an application from that industry though such a case may not often occur in practice.

Questions 84 *and* 85.—The whole thing really boils down to what should be the machinery for shifting frivolous applications, and on the whole I should prefer the applications to go directly to the Tariff Board who could reject frivolous applications without elaborate examination.

Question 86.—Nil.

Question 87.—With a properly constituted Tariff Board, I cannot imagine why the Government should differ from the Board's conclusions; but, obviously, the Government must have, at least in theory, the power not to accept the Board's recommendations.

Question 88.—On the ground of flexibility, I should prefer a non-statutory basis.

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I would not attempt to give answers to the questionnaire issued by the Commission. I would rather put my views in a very general manner and propose to answer such specific questions as may be put to me when I appear before the Commission in person.

Every proposal that we may formulate for the betterment of our economy should be judged only by one criterion—that is, how far will it contribute towards the increased national wealth and thus raise the standard of living of the masses? Anything that impedes the achievement of this objective must be cleared out of our way and anything that promotes the journey to the above end should be adopted as the 'ism' of the country.

Looked at from this angle, there could be no two opinions that the first thing that a poor country like India, which proposes to build up an edifice of prosperity in the shortest possible period needs is hard and still harder work. The implication of this translated into concrete form is that :—

(1) Even if a 54-hour week could no longer be re-adopted, a 48-hour week must be the minimum work demanded from every citizen, of course, in his own line, be he a worker, a clerk or a teacher. Any attempt to reduce the working hours by the back door, as is often being attempted, must be firmly resisted.

(2) Unnecessary holidays must be cut down and at least 310 days in a year should be prescribed as the minimum working days. At present we are working 300 or less days. It is the nation that pays for holidays. In other words, a larger number of holidays would only contribute towards greater poverty.

(3) Industries should be encouraged to open their own Canteens for providing balanced and good diet at reasonable cost and also medical help conducive to stamina and good health for hard work.

(4) Bonus and other rewards should be linked up with production and attendance.

(5) Rationalisation and other measures to increase production per man-hour should be encouraged.

(6) All forms of idleness except for recreation should be discouraged. "And on the seventh day God finished His work which He had made; and He rested on the Seventh day from all His work which He had made". Had He worked one day and rested six days, He would have been starved to death !

But with what are the people to work hard? To work hard, we need a job. And for a job we need land and factories with all their equipment. We need better transport, more roads, rail and ships. And for all this, we need new capital. Capital comes out of profit which is saved. It cannot come out of loss and extravagance. Hard work savings and investment, these are the first steps. Social services, houses, more leisure and other things have to come after we have produced new wealth.

If we are to industrialise quickly,—we need capital. Indian and also foreign I am not in favour of borrowing in foreign countries on the Governmental level. Private investors would not be interested in any Governmental enterprise. Government has planned a few things. Two steel plants to cost about 200 crores, a machine tool plant to cost about 20 crores, an electrical goods factory to cost about 30 crores, and a few other things. Not one pie has been invested by private investors, Indian or foreign. I don't think any foreign capital is likely to be attracted to this country unless a few things are done. The greatest handicap is too much regimentation and too high taxation.

The thousand and one "don'ts" directed by Government have killed all initiatives. Looking at the following tables of Sugar production we find that since U.P. and Bihar imposed their stranglehold on sugar, its production has been dwindling in these provinces. Whereas, in other parts of India it has been progressing, though not much, again due to some sort of control by the Centre. In U.P. and Bihar, the Sugar Industry is told when to produce and how to produce, at what price it should buy and at what price it should sell,

from where to buy and to whom to sell, how much it should pay to the workers and how many of them it should employ. Even molasses are controlled. Why should any industry need talent and drive if directives are issued by the Secretariat which must be obeyed, whether good or bad. Such a system may be good enough for driving cattle, but it is not what is needed for men. What is required is to let loose in an orderly fashion all the intelligence and creative talents of men which we have so long frozen.

TABLE I

Comparative Growth of Sugar Factories in the Various Provinces since 1931-32.

(No. of cane factories working).

Name of Provinces	1931-32	1938-39	1942-43	1946-47
U. P.	14	69	71	65
Bihar	12	32	31	29
Madras	2	7	10	11
East Punjab	1	3	4	10
Bombay	2	7	9	9
West Bengal & Assam	—	8	8	2
Orissa	—	2	2	1
Indian States	—	11	15	17
Total for India.	31	139	150	135

TABLE II

(Figures in lacs of tons)

Season	*U. P.*	*Bihar*	*Rest of India*
1931-32	66,312	75,021	17,178
1939-40	6,59,500	3,22,100	2,60,100
1940-41	5,13,300	2,64,100	3,36,000
1941-42	3,82,900	1,17,000	2,77,900
1942-43	6,12,500	2,37,400	2,20,800
1943-44	7,27,100	2,12,400	2,76,900
1944-45	5,28,900	1,69,900	2,54,700
1945-46	5,25,600	1,78,600	2,40,600
1946-47	5,25,800	1,48,200	2,40,600
1947-48	5,71,000	1,79,400	3,06,300

Now let us study the story of cloth. During the few months of decontrol production went up to 401 million yards per month. Now we are producing less than 300 million yards per month.

According to the "Eastern Economist" Index of Industrial Production, the general index that was 126.8 in 1943-44 is now as low as 105.1.

India (without Pakistan) produced about 50 lacs bales of cotton. After we started meddling and fixing an uneconomic price for cotton, the crop has come down to 24 lacs bales. The diversion of land from cotton to food has not given any increased production as could be found from the Government figures. According to the "Eastern Economist" Agricultural Index, the figure that was 106 in 1943-44 was only 92 (provisionally) in 1948-49. Our capacity for cement production is nearly 3 million tons, but we have not been producing it. Even the normal expansion of industry which used to take place before the war is at a standstill. If there were savings, which there are not people would not invest in new ventures with all sort of uncertainties and interferences,

This does not mean that I am not in favour of a planned policy. I definitely am, but not in favour of pedantic paper plans. *I believe in planned policy.* Those who think that America or England had no plans when they built up their industries are making serious mistakes. They had their plans such as allowed a free play to all the creative energies of the people and on a very wide scale. And the result has been what we see today in these countries. Russia, on the other hand, with all its regimentation, if Collin Clark is to be believed, has not made any equally appreciable progress in her *per capita* national wealth. Our planning should be of the type of a Municipal Corporation which, subject to certain rules, pass the plans of buildings and give full freedom to the builder after that, without stipulating that the contractor should buy bricks from A, mortar from B and cement from C, and then try to enforce its decision through an Enforcement Branch keeping the builder and the contractor under a constant dread of the police. This is not planning for construction but for destruction. This is what is happening just now in India. Production, investment, savings, initiative are going down; poverty, misery and unemployment are going up. This sort of destructive regimentation must go.

The Planning Commission should plan to promote initiative and creative tendencies of the people, subject of course to certain elementary patterns.

We cannot get capital in this country with such high taxation. The greatest investors are the middle and the upper middle class people. They are groaning under the burden of high taxation, direct and indirect, and can save little for investment with the present high cost of living. With the Punjab ruined, Zamindars and Princes finished, the high taxation has left no investor. Taxes ultimately raise the cost of production and contribute towards inflation. Taxes, therefore, in the interest of bringing down the price as well as for promoting savings, investment and increased production, must be brought down.

There was talk of nationalisation which happily now is receding in the back ground. At present we can socialise only the poverty and the misery. This can not raise our standard of life. What we need at present is to socialise prosperity. In other words, we must create prosperity and then get everybody infected with it.

I shall be glad to answer the questions that may be put to me.

Sir Chunilal B. Mehta, Bombay.

PART I

Question 1.—My reply is yes.

Question 2.—The principal changes in our agricultural situation, more specially due to the partition of the country, are as follows :—

(a) Substantial areas growing cotton and jute have gone to Pakistan and the result is that the crops of both cotton and jute, so far as Indian Dominion is concerned, have become smaller.

(b) Consumption of Indian Dominion specially of cotton as well as oil-seeds has increased.

(c) As regards international trade, we have almost lost our export markets specially for cotton.

Question 3.—The reduction in cotton crop will materially affect our textile industry. At present India has to rely on Pakistan and other foreign cottons and unless and until crop of medium and long staple cottons is increased in India, the textile industry will be under a great handicap.

Although India has removed import duty on cotton from Pakistan, Pakistan continues to keep up the export duty on raw cotton from Pakistan. The amount of duty is a very heavy one and it makes the cotton of Pakistan comparatively dearer to India.

In this connection it may be pointed out that import duty on cotton imported from other foreign countries than Pakistan is continued.

In view of the heavy export duty on cotton from Pakistan and in view of India not likely to be able to grow sufficient quantity of medium and long staple cotton for at least ten years to come, it is necessary for progress of the textile industry of India that import duty on cotton from foreign countries other than Pakistan should be abolished.

Question 4.—The basic requirement in our agriculture is to increase the yield per acre by the use of fertilizers and increased supplies of water either through canals or through boring wells.

In the above paragraph I have specially referred to cotton crop. There is no question of intensified industrialisation of textile industry, but there is the question of sufficient supplies of raw cotton to the existing textile industry.

Questions 5 *and* 6.—These are the questions which will be better replied to by the different industrialists interested.

Question 7.—(a) The present position of small scale and cottage industry in the economy of the country is comparatively insignificant and requires to be properly encouraged.

(b) (i) The relation of small scale and cottage industry should be subsidiary to agriculture.

(ii) Small scale and cottage industries should be supplementary to large scale industries. But there can also be small scale and cottage industries independent of large scale industries. This can prosper only if the small scale and cottage industries are properly protected from competition by large scale industries as well as imported materials.

Question 8.—Under the present circumstances and even in the long run small scale and cottage industries have a significant role to play in the economic development of the country.

Question 9.—(a) Dairy industry can be subsidiary to agriculture.

(b) There are generally a number of parts and minor equipments within the large scale industries which can conveniently be done by hand work, and such things can be supplementary to large scale industries.

(c) There are many works of Arts which can be independent units of production.

Question 10.—Fine Art industries can be considered specially suitable for export purposes.

Question 11.—I do not think that protection of large scale industries has affected small scale and cottage industries.

Question 12.—The main handicaps from which small scale and cottage industries suffer at present are competition from large scale industries as well as imported materials and generally lack of appreciation for the products of the country.

As regards the steps for the removal of these handicaps, the suggestions are that special facilities should be given to the products of small scale and cottage industries along with preference for the purchase of those products by Government departments, bearing in mind at the same time that in the beginning the quality may not be according to the present day taste of the users and the prices may be comparatively little dearer, but by patronizing such products time would soon come when good quality products would be available at reasonable prices.

Question 13.—The steps necessary to safeguard the interests of the small scale and cottage industries when trade agreements with foreign countries are negotiated are that special tariff preferences should be secured for the products of such small scale and cottage industries.

Questions 14 *to* 20.—These are the questions which will be better replied to by the different industrialists of the country, but personally, I feel that policy of discriminating protection in itself is basically wrong and not in the interests of the industries of the country.

Questions 21 *to* 27.—These questions would be better answered by the different industrialists themselves.

Question 28.—The revenue tariffs imposed in the past have had a fairly good effect on the growth and development of different small industries and also reduced in some cases the imports of similar goods.

Questions 29 *to* 33.—The same remarks as made under questions Nos. 21 to 27 apply here also.

Question 34.—Relatively much more importance should be attached to the fiscal measures under present-day conditions for the promotion of our trade and industry.

Question 35.—In the present state of Indian industries, India should look to the reduction of foreign imports as much as possible and for that purpose an appropriate tariff policy can assist to a considerable extent in the development of our industries which would ultimately reduce the volume of imports. I do not think that a tariff policy can be much successful in increasing the export trade and it is not necessary also.

Question 36.—For the short term period the objectives of our tariff policy should be to see that consumer goods are not imported to an extent and at a price which would affect adversely our existing internal industries of consumer goods.

Question 37.—I do agree with the minority report of the Indian Fiscal Commission 1921-22 that there should be an unqualified pronouncement that the fiscal policy best suited for India is protection.

Question 38.—The principles and conditions for regulating the grant of protection or assistance should not be too trying and should not expect very quick and fine results from the industry.

Questions 39 *and* 40.—I agree with the view that the grant of protection should be given consideration if necessary even before an industry is established or when proposals for its establishment are under consideration.

Question 41.—(c) I would like the appropriate method to be determined in each case on its merits.

Whenever the internal cost of production is high and the foreign prices are low, then the system of protective duty is preferable whether the volume of internal production is sufficient for the internal requirements or not.

On the other hand, whenever the internal cost of production is low and the foreign prices are high but the volume of internal production is not sufficient for internal requirements, then the system of pool prices should be adopted for distribution.

Question 42.—The Government's policy and procedure where the situation calls for only safeguarding or anti-dumping measures as distinct from substantive protection whether for small scale or large scale industries should be to raise the tariff walls to the extent that all dumping may cease, or whenever internal production is sufficient for internal requirements, then the imports should be prohibited.

Question 43.—(a) The place of export duties in the tariff system in the future should be rather comparatively small and attached only to those commodities and goods which may be the monopoly of the country or for which there would not be any competition from any other country in the third market. However, export duties may be levied on those commodities and goods which may be necessary for internal requirements.

(b) There should be export control for the purpose of safeguarding the domestic consumer against critical shortages as well as for conserving domestic supplies of raw materials necessary for utilization by the domestic industries.

Question 44.—Fiscal measures can help an established industry to maintain its exports only temporarily. It is for the industry itself to be able to stand competition in the export markets. However, the industry should not be at any disadvantage to secure its raw materials etc. as compared with its competitor. For instance, at present there is import duty on foreign cotton. The millowner or the exporter who exports piece goods made out of that foreign cotton should get refund of the proportionate duty paid by him for imported cotton which at present is not refunded.

Question 45.—No.

Question 46.—Variations in import duties to meet variations in import costs should not be too frequent.

Question 47.—The considerations governing the choice between the various alternative forms of duties such as specific, *ad valorem,* compound, etc. may depend upon individual cases of protection.

Questions 48 *and* 49.—I would like a minimum duration to be laid down for protective measures subject to extension if necessary.

Question 50.—I could not make out whether the question refers in its aspect towards affecting the industry or in its aspect towards general imports which may not have much bearing on the country's industries. If the question relates to the former then the existing system of revenue tariff classification requires modification to a considerable extent. In that case much importance should not be given to loss of revenue to the public exchequer, neither should importance be given whether a little burden on the consumer is reduced or not. Importance should be given from the industries point of view. However, in the latter case, first importance should be given to the fairness to the importer which would automatically reduce the burden on the consumer and which may not result in any appreciable loss of revenue to the public exchequer.

Question 51.—The objectives of our long term fiscal policy should be that the internal industries should be allowed to progress so that they may be able to supply the internal requirements.

As regards foreign trade, imports of industrial raw materials specially of raw cotton and capital goods will have to be continued for some years to come.

On the other hand, it can be conveniently said that India will not have much to export in the near future, except those commodities and goods which she is now exporting owing to the expected development in the internal demands.

Question 52.—I do not think that it will be necessary for Government to facilitate the objectives of our fiscal policy to participate in foreign trade either in the short period or in the long run.

Question 53.—Does not arise.

Questions 54 *to* 57.—

Question 58.—Now that India has attained independence, the question of imperial preference should not and could not remain. But under the present world circumstances there appears to be a necessity for bilateral agreements which are against the main principles underlying the Havana Charter.

Question 59.—If there is no imperial preference, the question does not arise. Even if the scheme of imperial preference is continued, it should, in future, be on the basis of bilateral agreements and not on imperial preference.

Questions 60 *to* 64.—

Question 65.—My reply is the same as for question 59.

Question 66.—(a) I consider that industries receiving protection or assistance from Government owe a special obligation to the rest of India.

(b)

Question 67.—(a) It is necessary to stipulate that no protected or assisted industry should engage in any restrictive practice in respect of production, distribution and prices. However, there are occasions when certain restrictive practices have to be adopted and as such Government should have power to allow such practices if they are convinced of the necessity of the same.

(b) A right of association or combination of different units in a protected or assisted industry should be given on principle that restrictive practices in respect of production, distribution and prices may not be adopted except with the permission of the Government.

Question 68.—In case an industry applies for protection before being established and in case an established industry requires and receives protection, conditions should be laid down that sufficient finances and technical skill are available.

Question 69.—

Question 70.—I think that obligation should not be embodied in the relevant statutes dealing with protected or assisted industries but should be left to be prescribed by the tariff making machinery on an *ad hoc* basis in each individual case of an industry seeking protection or assistance.

Question 71.—(a) I do not consider that any special administrative machinery is necessary to ensure that the obligations or protected and assisted industries are duly discharged.

(b) I would not prefer that this function should be entrusted to a special wing of the tariff making machinery or any other existing organization.

(c) I think it would be sufficient if Government is represented on the management of protected or assisted industries in order to ensure that these obligations are carried out in the spirit in which they are conceived.

Questions 72 *to* 76.—

Question 77.—Yes, I agree that a specialised organisation for tariff purposes is essential to the implementation of a scientific policy.

Question 78.—I agree that the Tariff Board or the Tariff Commission should be a permanent body of high standing consisting of members who are of high ability, integrity and impartiality with a knowledge of economics and practical acquaintance of business affairs.

Questions 79 *to* 88.—

PART II.

Sir Chunilal B. Mehta, Bombay.

Question 89.—I do approve in general of the basic purpose and objectives underlying the Havana Charter on trade and employment.

Question 90.—I do not consider that the provisions and safeguards laid down in the Charter for the economic development and reconstruction of backward and underdeveloped countries are adequate for the requirements of India.

Question 91.—The provisions and safeguards of the Havana Charter fall far short of India's minimum requirements. For instance, at every stage importance is given to international trade while India under the present circumstances is in need of increasing internal trade as against the international trade.

Under article 15 of the Havana Charter, any member or say India contemplating the conclusion of an agreement of a preferential type or of a bilateral character, the member or India shall have to apply to the Organization and the member can get such permission only by a two-thirds majority of the members present for voting and that also subject to such conditions as the Organization may impose. Generally, it is a known fact that the International Organizations are working rather in a group system, and if the interests of different member countries are effected adversely—which would naturally be the case —permission may not be granted or even if granted it may be with such stipulations that the desired results may not be achieved.

It may be mentioned here that article 20 which is in connection with the general elimination of quantitative restrictions is in itself sufficient for India to hesitate to accept the Charter.

Question 92.—While the terms and conditions proposed in the Charter for the continued employment of the existing foreign capital and new foreign investment are not much against the requirements of India, yet it may be pointed out that in a number of countries such as United States and South Africa there is a tax levied on the earnings by way of dividends or interests of aliens. For instance, an Indian, who earns some dividend or interest either in the United States or in South Africa is required to pay a tax, because he is not the citizen of the country. On the other hand, under the Havana Charter, India has no right to levy any tax on the foreigners who inve capital in India and earn interest or dividend, because the earners are aliens.

Question 93.—I am not in agreement with the broad lines of the commercial policy as set out in the chapter 4 of the Havana Charter.

Question 94.—My objections are to articles 20 and 21 of the Charter. My objections relate to both short term and long term periods.

Question 95.—Although there may not be any injurious effe on our trade and industry on account of our acceptance of the obligations of the Charter in the short period, yet to my mind it will definitely check the progress of the industrialisation of India in the long run.

Question 96.—On a careful balancing of pros and cons I do not approve of India's adherence to the Havana Charter.

Question 97.—The basis of the broad lines of India's commercial policy should be industrialisation of the country without any restrictions, though India should co-operate with other countries of the world, safeguarding her own interests.

Question 98.—This question does not arise.

Question 99.—I do not agree with the main principles underlying the general agreement on tariff and trade as laid down in Part I and Part II of the agreement. I cannot detail my objections under specific heads, as I have not got with me the copy of the Agreement.

Question 100.—Whatever concessions are supposed to have been received by India are no concessions at all, because almost all the articles for which concessions are said to have been received are common articles and required by the different countries of the world whether we have given any concessions in return or not.

Question 101.—On a careful examination of these reciprocal concessions I do not consider that the provisions of the General Agreement on Tariffs and Trade have been, on balance, in the interests of India. The concessions received by India are practically no concessions.

Question 104.—As a matter of fact, other things are not equal and as such the tariff concessions granted to and received by India from other countries will have to be reconsidered in the light of latest developments.

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